



the
comptroller general
of the
united states

ANNUAL REPORT

768848 / 087544



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

January 19, 1973

Dear Sirs:

In accordance with section 312(a) of the Budget and Accounting Act of 1921, I respectfully submit the annual report on the activities of the United States General Accounting Office during the fiscal year ended June 30, 1972.

A handwritten signature in black ink, reading "Thomas B. Atkins". The signature is written in a cursive style with a large, stylized initial 'T'.

Comptroller General
of the United States

The President of the Senate

The Speaker of the House of Representatives

The General Accounting Office is under the control and direction of the Comptroller General of the United States. There is also a Deputy Comptroller General of the United States¹ who performs such duties as may be assigned to him by the Comptroller General and who acts as Comptroller General during the absence or incapacity of the Comptroller General or during a vacancy in that office. The Comptroller General and the Deputy Comptroller General are appointed by the President with the advice and consent of the Senate.

**Comptrollers General
of the United States**

John R. McCarl
July 1, 1921 — June 30, 1936
Fred H. Brown
April 11, 1939 — June 19, 1940
Lindsay C. Warren
November 1, 1940 — April 30, 1954
Joseph Campbell
December 14, 1954 — July 31, 1965
Elmer B. Staats
March 8, 1966 —

**Assistant Comptrollers General
of the United States**

Lurtin R. Ginn
July 1, 1921 — November 11, 1930
Richard N. Elliott
March 9, 1931 — April 30, 1943
Frank L. Yates
May 1, 1943 — June 29, 1953
Frank H. Weitzel
October 12, 1953 — January 17, 1969

**Deputy Comptrollers General
of the United States**

Robert F. Keller
October 3, 1969 —

¹Public Law 92-31 (approved July 9, 1971) changed the title Assistant Comptroller General to Deputy Comptroller General.



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ANNUAL REPORT

1972

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appendix
to the
annual report
of the comptroller general
of the united states

FOR THE FISCAL YEAR ENDED JUNE 30, 1970



WASHINGTON: 1970

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PHOTOGRAPHY CREDITS

Public Health Service, Department of Health, Education, and Welfare, p. 8; Premier Auto-mobiles Limited, p. 46; General Dynamics—Fort Worth, p. 59; U.S. Army, p. 65; GSA Federal Supply Catalog, p. 102; and Environmental Science Services, p. 111.

COMPILATION OF FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS

This section of the Appendix contains a compilation of General Accounting Office findings and recommendations for improving Government operations relating for the most part to fiscal year 1970.

The compilation is organized so that the findings and recommendations are identified with and grouped generally on the basis of functional areas of the Government's operations, regardless of the agencies involved. Because findings developed in one agency frequently have application in others, this arrangement facilitates consideration of all findings in each functional area in all agencies.

The purpose of the compilation is to provide a convenient summary showing, by functional areas, the opportunities for improved operations which have been identified by the General Accounting Office in carrying out its audit responsibilities. These responsibilities are derived from the Budget and Accounting Act, 1921, and other laws which require independent examina-

tions of the manner in which the Government agencies are discharging their financial responsibilities.

The compilation summarizes the corrective actions taken by the agencies on the recommendations. Certain of these actions involve changes made in policies and procedures through the issuance of revised directives and instructions. The effectiveness of these actions is dependent on the manner in which the directives and instructions are implemented and on the adequacy of the supervision and internal reviews of the operations. For this reason, to the extent deemed appropriate, it is the policy of the General Accounting Office to review and evaluate the effectiveness of corrective actions taken by the agencies.

The back of Section I, beginning on page 123, contains indexes of (1) agencies to which the findings and recommendations relate and (2) the applicable Federal budget functional classifications. The contents also shows the Federal budget functional classification.

FEDERAL PROGRAMS

Agricultural Commodity Programs

1. Sugar Marketing Quotas.—The Agricultural Stabilization and Conservation Service, Department of Agriculture, is responsible for administering sugar marketing quotas established by the Sugar Act of 1948, as amended. During the 6-year period from 1963 through 1968, annual marketings of sugar by domestic producers ranged from 225,000 tons to 913,000 tons—about 4 to 13 percent—below the quotas authorized by the act.

These substantial deficits in domestic marketings developed because continuing, long term deficits had occurred in two domestic sugar-producing areas—Puerto Rico and the Virgin Islands. GAO was informed that other domestic areas could provide for the unfilled quotas; however, the Sugar Act requires that unfilled domestic quotas be allocated to foreign countries.

GAO estimated that had the 1968 Puerto Rican and Virgin Islands' deficits been allocated to the domestic sugarcane and sugar beet areas in proportion to their 1968 marketing quotas, domestic producers could have realized additional gross income of about \$62 million and that the 1968 outflow of dollars for sugar imports could have been reduced by about \$89 million.

In view of the significant benefits which could be achieved, GAO recommended that the Congress in its extension of the legislation—which expires on December 31, 1971—consider modification of the deficit allocation provisions of the Sugar Act of 1948, as amended, to enable the Secretary of Agriculture to allocate continuing, long term deficits of a domestic area to other domestic areas rather than to foreign countries.

The Secretary of Agriculture agreed with GAO's findings and stated that consideration should be given by the Congress to enabling the domestic areas to market a substantially larger proportion of the national requirement than is possible at present. (Report to the Congress, B-118622, Sept. 23, 1969)

2. Constitutions of Farms Under the Sugar Program.—In a review of the constitution of farms

under the U.S. sugar program administered by the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, GAO found instances where farms were considered as separate farms for subsidy payment purposes although they should have been considered, according to ASCS guidelines, as single farms because of common ownership and operation. Because of the sliding scale method of computing subsidy payments, farmers received larger payments for the separately constituted farms.

Also, under the national sugar beet acreage reserve program, which was designed to encourage new growers to produce sugar beets, more reserve acreage was allotted in some cases to the separate farms than would have been allotted to a single farm. Thus, fewer acres were available for other new growers.

In six of the seven States in which GAO made a review, neither State nor county offices and committees had been making adequate reviews of farm constitutions. In response to GAO recommendations, the Administrator, ASCS, proposed certain actions, such as annual reviews of farm constitutions by county committees, spot checks by State officials, and annual summary reports to the States and Washington. GAO believes that these actions will, if effectively implemented, significantly improve the administration of the sugar program and minimize improper farm constitutions. ASCS officials also informed GAO that any overpayments would be recovered where appropriate.

The Congress has shown increasing interest in direct payments to farmers, and, in particular, in a proposed limitation on individual farm payments. Since the difficulties involved in determining what constitutes a farm would be inherent in any program to limit individual farm payments, the Congress may wish to consider GAO's findings during its further deliberations regarding this matter. (Report to the Congress, B-118622, Mar. 4, 1970)

3. Storage of Perishable Commodities.—GAO believed that the Commodity Credit Corporation (CCC) could achieve economies by eliminating an extra handling of bulk butter purchased under the price-support program.

SECTION I

Before being purchased, the butter was stored in CCC-approved commercial warehouses. Generally, the butter was retained at the same warehouses after purchase, but was transferred from the vendors' coolers or freezer space to public freezer space used by CCC. CCC paid transfer charges to the warehousemen on such transfers, which amounted to about 77 million pounds in fiscal year 1969.

Inasmuch as the butter was offered for sale to CCC shortly after it arrived at the warehouses, it appeared that the butter could have been placed in public freezer space upon arrival at the warehouses. This would have eliminated an extra handling.

After GAO expressed the belief that the extra handling should be eliminated, CCC announced in December 1969 a change in the program to encourage sellers to move butter directly into public freezer space and thereby avoid unnecessary handling costs. (Report to the Executive Vice President, CCC, Sept. 24, 1969)

4. Shipments of Perishable Commodities.—In August 1966, GAO reported that the Commodity Credit Corporation (CCC) could realize savings in its rail transportation costs by eliminating excessive protection on shipments of certain perishable commodities without risking spoilage or deterioration of the commodities. GAO estimated that, during a 1-year period, CCC could have saved about \$2 19,000 in transportation costs for butter and cheese if it had required protective services comparable to those which a commercial shipper would have required. Additional savings might also be available on shipments of other perishable commodities.

The Executive Vice President, CCC, agreed that an evaluation should be made of the protective services required. An evaluation was completed in 1968 and new guidelines were adopted. The protection specified by the new guidelines is considerably less than that previously required and is similar to the protection provided by commercial shippers. GAO estimated that CCC, by following the new guidelines, had saved about \$136,000 in transportation costs in fiscal year 1969 on butter and cheese shipments and an indeterminate amount on shipments of other perishable commodities. (Report to the Congress, B-114824, Aug. 10, 1966)

5. Distribution of Government-Donated Commodities to Public and Nonprofit Institutions.—GAO's review in two States of the institutional portion of the commodity distribution program administered

by the Food and Nutrition Service (FNS), Department of Agriculture, and by State distributing agencies within the States, showed that all eligible institutions were not given an opportunity to participate in the program and that FNS needed to strengthen its administration of the program.

Eligible institutions were not given an opportunity to participate because neither FNS nor the State distributing agencies had established policies and procedures for periodically providing public and nonprofit institutions not participating in the program with information concerning eligibility requirements, benefits, and procedures for applying. GAO believed that a substantial number of needy persons whose diets could be supplemented through the program might be residing in eligible nonparticipating institutions which should be given an opportunity to participate.

Various weaknesses in administering the program existed at the State level, including an inadequate determination of the eligibility of institutions and of the number of needy persons within institutions eligible to participate in the program. These problems resulted principally from the limited efforts devoted to the program by the FNS regional office and from FNS not having provided the State agencies with adequate written instructions for program administration.

The Administrator, FNS, agreed with these findings and informed GAO of various actions that would be taken to improve program operations. (Report to the Administrator, FNS, Oct. 13, 1969)

Air Safety

6. General Aviation Accidents.—Reports issued by the National Transportation Safety Board indicated that, in most instances, pilot error was a cause in general aviation accidents; ie., accidents involving private aircraft or commercial aircraft under 12,500 pounds. Because sufficient information was not available within the Federal Aviation Administration (FAA), Department of Transportation, GAO recommended that FAA make a general study to determine (1) why so many errors are made by general aviation pilots, (2) the necessary corrective measures, and (3) the availability of flight instructors needed to implement a periodic flight instruction and proficiency check program for general aviation pilots.

Also, because of significant delays encountered in processing proposed new or amended rules and regulations for promoting the safety of air commerce,

GAO suggested that the Administrator, FAA, implement procedures that would require the FAA Regulatory Counsel to monitor the time required to process such proposals. In lieu of this suggestion, the Administrator proposed a program providing for the office of origin to monitor individual rulemaking projects. GAO concurred in the Administrator's proposal and recommended that he evaluate the results of the program within a year after its inception. (Report to the Secretary of Transportation, B-164497, Apr. 3, 1970)

Comprehensive Health Planning and Services

7. Computerizing Patients' Health Records.—The New York University Medical Center was making slow progress in its efforts to develop a computerized system for the retrieval, collation, and consolidation of the available medical information and history of the patients served by an HEW-supported project for providing comprehensive health care and services to school and preschool children in low income families.

About \$1.5 million had been made available through March 1970 for the medical records retrieval center operations.

As of January 1968—20 months after the project began—only 1,200 patients' medical records had been computerized. For the most part, these records were incomplete. This level of achievement was, in GAO's opinion, attributable to inadequate planning on the part of the grantee and the grantor agency and to the absence of a feasibility study.

In response to GAO's recommendations, the Health Services and Mental Health Administration, Department of Health, Education, and Welfare, began developing new procedures and guidelines applicable to health projects for children and youths which would require that feasibility studies be made for any proposed major applications of computer technology. (Report to the Administrator, Health Services and Mental Health Administration, Feb. 24, 1970)

Disability Compensation Benefits

8. Disability Compensation Payments to Physically Impaired Federal Employees.—GAO's examination of 551 disability compensation awards totaling about \$2 million to Federal employees permanently disabled in the line of duty showed that a number of the

awards were either not determined in accordance with the Department of Labor's prescribed standards and regulations or were not determined on a uniform basis. In a number of other cases, GAO could not ascertain whether prescribed standards had been followed because the files lacked information as to how the awards were computed.

Also, the Department had not issued instructions providing for a systematic review of claims to insure that uniform procedures were followed by its field offices. As a result, claims were not handled on a consistent basis.

The Secretary of Labor agreed to adopt GAO's proposals that the Department (1) reemphasize to the claims examiners the need to obtain adequate support before approving claims and to provide for an independent review of awards, (2) establish a standard method of computing awards for certain physical impairments, and (3) issue instructions which would require approval of awards by Assistant Deputy Commissioners where the claims examiners disagree with any aspects of the recommendations of the District Medical Director. (Report to the Assistant Secretary for Administration, Department of Labor, Mar. 20, 1970)

Economic Development Assistance

9. Coordination and Review of Activities.—The Economic Development Administration (EDA), Department of Commerce, awards contracts under the Public Works and Economic Development Act of 1965 to certain universities and private organizations under the administration of a "University Center" to provide various types of technical assistance services within specific geographic areas. In several instances EDA had approved technical assistance projects to be carried out by organizations not subject to administration by a university center which appeared to be similar in nature to the types of projects administered by the university centers. In GAO's opinion, some of these projects could possibly have been administered by the centers under their existing contracts. Consequently, it was suggested that there was a need for coordination to insure maximum utilization of the capabilities of the centers.

Also, in progress reports submitted to EDA, one university center reported a higher number of jobs saved or created by companies which had received assistance from the center than had actually been saved

SECTION I

or created. This suggested a need for monitoring the activities of the centers.

EDA informed GAO that procedures to evaluate the relevance and effectiveness of the university center program would be adopted and that it had established a uniform reporting system to measure benefits on a comparable basis. (Report to the Assistant Secretary for Economic Development, Oct. 16, 1969)

10. Control Over Undisbursed Funds at End of Grant Period.—The Economic Development Administration (EDA), Department of Commerce, had no way of determining whether grant funds retained after the expiration of a grant period were subsequently disbursed or otherwise accounted for. GAO therefore recommended that EDA require grantees to continue submitting financial reports after the expiration of a grant period until all funds have either been disbursed by the grantee or returned to EDA.

To demonstrate the need for continued reporting, GAO brought to EDA's attention a case in which a grantee had been allowed to retain beyond the grant period about \$26,000 to pay an amount owed to a subcontractor although the subcontractor had not submitted a final billing. EDA then determined that about \$4,000 was owed to the subcontractor and that about \$22,000 should be returned to EDA by the grantee.

In response to GAO's recommendation, EDA instituted control procedures whereby a final review of expenditures is made when the grant is closed out and the grantee is instructed to return unexpended Federal funds to EDA. (Report to the Assistant Secretary for Economic Development, Oct. 16, 1969)

Economic Opportunity Programs

11. Project One Hundred Thousand for Enlisted Military Personnel (Training To Qualify for Military Service).—Project One Hundred Thousand (POHT) is a continuing program developed by the Department of Defense (DOD) in 1966 to accept for military service men who previously would have been disqualified under existing mental and physical standards. GAO reviewed the program to obtain information on the administration of its early phases and to identify areas where corrective action would improve its effectiveness.

The Army had a marked degree of success in relation to the objectives of the program. However certain problem areas required continued attention by

the Army to realize increased benefits from the program. The more significant of these follow.

Many POHT individuals were not receiving needed reading instruction because of insufficient instructors and facilities.

Restructuring of certain regular training courses to accommodate POHT individuals resulted in additional investment in training aids and personnel.

There was a relatively high discharge rate for certain individuals accepted under the Medically Remedial Enlistment Program (MREP)—a program which permits acceptance of men into the Army with selected, correctable medical conditions.

Not all additional costs associated with the POHT program were readily identifiable.

The reporting system contained deficiencies, particularly pertaining to recycling during training. (Recycling is the requirement that an individual repeat certain portions of training because he has not met the standards of a particular phase of training.)

To improve the effectiveness of the program, GAO suggested that the Secretary of Defense take the necessary action to:

Reevaluate the MREP to determine whether there is a need to revise acceptance standards or exclude individuals with certain physical defects from the program.

Prevent acceptance of individuals into the MREP who would require more than the prescribed approximate 6-week period of treatment.

GAO also suggested that the Secretary of the Army take the necessary action to:

Insure that adequate local implementing instructions are prepared governing the information required to be forwarded for use by management to evaluate the POHT program.

Establish a system for obtaining more reliable cost data for certain areas of training and other programs operated specifically for POHT personnel.

DOD generally agreed and stated that the suggestions contained in the report were helpful in improving the management of the program. Regarding the MREP, DOD advised that it would further evaluate those conditions which had resulted in high separation rates and lengthy periods of noneffective service time. (Report to the Congress, B-164088, Dec. 8, 1969)

12. Project TRANSITION for Enlisted Military Personnel (Training To Prepare for Civilian Life After Military Service).—Project TRANSITION was developed by the Department of Defense (DOD) in 1968 to provide educational and vocational training designed to increase the chances for employment of enlisted men in civilian life after separation from service. As of March 31, 1969, 250 installations were participating in the project. GAO reviewed the project at the five military installations with the longest experience in the program to obtain information on administration of the program and to identify areas where corrective action could reduce costs or improve effectiveness. In view of the relative newness of Project TRANSITION, GAO was not in a position to express an opinion on its overall effectiveness; however, it found that certain improvements were needed if the stated objectives of the program were to be attained.

Many enlisted personnel eligible to participate in the program were not identified during their last 6 months of service. Many others identified as eligible were not contacted to determine if they wanted to participate. Also, a large number of Career Plans Questionnaires, which had been given to eligible servicemen, were not returned to the local TRANSITION office.

DOD considers counseling to be the keystone of the program. However, at three of the five installations GAO visited, the counselors did not have descriptions of the courses offered by the program nor adequate current information on available jobs. Also, in many instances the counselors were keeping inadequate records of the assistance given to each serviceman. The criteria used for determining needed training courses were inadequate in some instances. Other deficiencies were noted in accounting for costs and in the recordkeeping and reporting procedures.

GAO proposed that DOD take appropriate action to correct the matters disclosed by the review.

Officials of the Office of the Secretary of Defense were generally aware of the areas which needed improvement and advised GAO that corrective action had been taken to strengthen the administration of the program. (Report to the Congress, B-164088, Dec. 8, 1969)

13. Community Action Program Service Activities.—In September 1969 GAO reported that there were wide variations in costs and performance of service activities of Community Action Agencies (CAA), which carry out at the local level the com-

munity action program of the Office of Economic Opportunity (OEO).

GAO further reported that the records used by OEO provided little or no data on its function of stimulating changes in social institutions.

Some of the more important findings were:

It cost about five times as much to maintain a child in a full year Head Start program as in a summer program. The programs are comparable in a number of respects, but educational and behavioral effects are uncertain.

Head Start generally was successful in attracting the assistance of nonpaid volunteers from local communities, in maintaining small class sizes, and in providing medical and dental services for most of the participants.

It cost on the average between \$1,100 and \$1,700 to maintain a youth in Upward Bound for a program year. A relatively small percentage of participants dropped out of the program. Most continued their education in secondary and postsecondary schools.

The widest variation among projects in cost per participant was found in the adult education and training programs. In general, the effects of these programs are uncertain. Program records indicate a modest performance but are inconclusive.

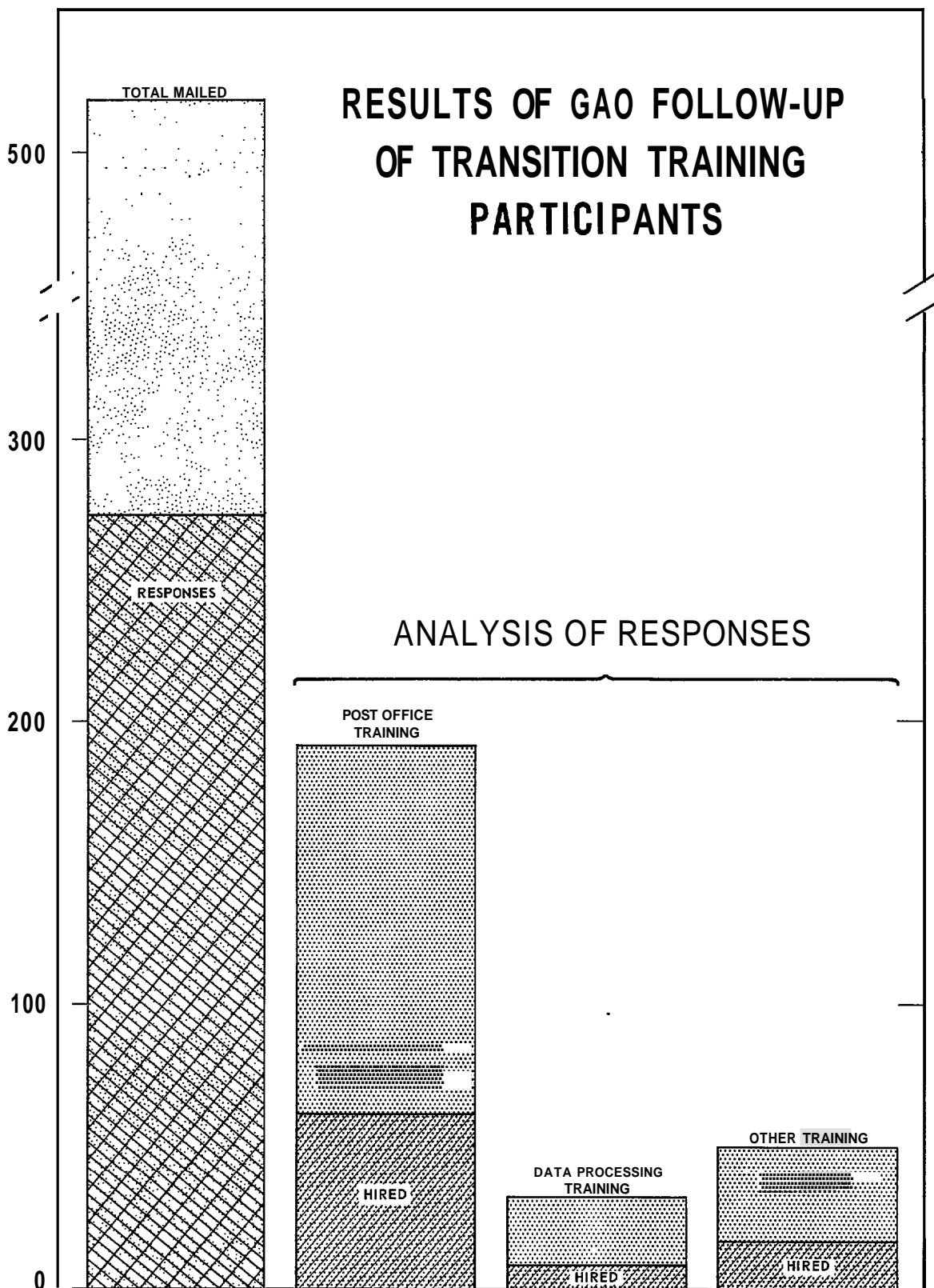
Conclusions relative to the Legal Services program were made difficult because of the absence of any consistent definition of a participant in local records and reporting. For this reason, it was impracticable to compute a participant's cost or to compare programs on this measure or any measure involving participant data. Cost per legal problem accepted ranged from about \$30 to \$125, and averaged about \$70. There were wide ranges in the type of legal problems handled, with family problems generally predominating, followed by consumer and employment cases.

Family Planning program activities varied widely, from those simply providing referrals to non-OEO funded activities to those providing information, medical services, and contraceptives.

There have been problems in the design and implementation of the Community Action Program Management Information System (CAP MIS). These problems have seriously undermined CAP MIS usefulness as a means of monitoring, control, oversight, assessment, or evaluation of Community Action program activities by OEO national head-

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quarters. Some of these problems are associated with the complexity of the system and consequent lack of understanding by local personnel. Others center on the question of the extent to which the system actually meets management needs.

GAO suggested that (1) because data accumulated under OEO's administration of the Upward Bound program is of considerable value, and, in view of the July 1969 transfer of Upward Bound from OEO to the Department of Health, Education, and Welfare, consideration should be given to maintaining a similar data bank, (2) in its efforts to provide direction and assistance to CAAs in evaluation of their results, OEO should give adequate attention to criteria and other requirements for evaluating results of local initiative programs, (3) local program data need to be accumulated in a more orderly and consistent fashion, particularly with respect to legal services, family planning, direct employment, and the physical examination, referral, and treatment activities, and (4) purposes of the CAP MIS should be more clearly defined, and revisions to the CAP MIS should be related directly to these purposes.

GAO was informed by OEO that the CAP MIS was being improved and that many of the specific problems identified in the review were being corrected. (Report to the Congress, B-130515, Sept. 26, 1969)

Employment Security Program

14. Services to Job Applicants and Employers.—

A review of selected policies, procedures, and practices of the Manpower Administration, Department of Labor (DOL), relating to the administration of the employment security program in the States of Maryland, Pennsylvania, West Virginia, and at certain local employment security offices in Ohio, revealed opportunities for improving services to job applicants and employers.

DOL's policies and procedures direct employment security offices serving the same labor market area to cooperate by exchanging information dealing with job opportunities and the available labor supply within their respective geographic areas. Such information was not being exchanged, however, among employment security offices in the Bridgeport, Ohio-Wheeling, W. Va., and the Steubenville, Ohio-Weirton, W. Va., labor market areas. Consequently, the individual offices were not able to apprise applicants and em-

ployers of the total available job opportunities or labor supply within the entire labor market area. A labor market area consists of a central city (or cities) and the surrounding territory within a reasonable commuting distance.

GAO recommended that DOL ascertain whether West Virginia and Ohio employment security agencies had executed written agreements prescribing information exchange procedures to be followed by the employment offices in the Bridgeport-Wheeling and Steubenville-Weirton labor market areas and that DOL make a review to ascertain whether the requirements of any such agreements were being carried out and whether applicants and employers were receiving appropriate services. (Report to the Secretary of Labor, B-133182, June 1, 1970)

15. Criteria for Closing State Employment Security Offices.—

The Department of Labor (DOL) had criteria for determining whether full-time, year-round employment security offices should be opened, but had no criteria for determining whether these offices should be closed. On the basis of the criteria for opening such offices, GAO identified several offices whose activities did not appear sufficient to warrant their retention on a full-time basis. It was recommended that DOL establish and apply to all State employment security offices criteria on when offices should be closed or their operations curtailed. (Report to the Secretary of Labor, B-133182, June 1, 1970)

16. Acquisition of Office Space for State Employment Security Offices.—

The Department of Labor's Manpower Administration did not require State employment security agencies to compare the cost of acquiring office facilities for long term use under rental-purchase arrangements with the cost under leasing arrangements, although administration officials indicated that rental-purchase arrangements generally were more advantageous to the Government. In acquiring office facilities, the Pennsylvania employment security agency considered the advantages of rental-purchase arrangements; the Maryland employment security agency entered into long term leases; and a West Virginia State agency, on behalf of the employment security agency, entered into 1-year leases which were extended from year to year. West Virginia State officials believed that State law precluded the use of rental-purchase arrangements.

GAO recommended that DOL (1) require State employment security agencies to submit cost analyses

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comparing the long term costs of acquiring office facilities under various arrangements, including rental-purchase arrangements, when long term facility needs are determinable, and justifications when the agencies wish to enter into arrangements other than those that are the most economical and (2) explore the possibility of having the West Virginia law amended or having the employment security program activities exempted from the State law in order to permit more economical facility acquisition.

Also, with respect to certain office facilities for which acquisition costs were being amortized with Federal grant funds, a need existed for the Manpower Administration to obtain adequate assurances that the State employment security agencies would acquire equities in the facilities during the periods of amortization. This would include the right (1) to continued use of the facilities, (2) to share in the proceeds if the facilities were sold, or (3) to comparable space without increases in rental costs. GAO recommended that DOL obtain adequate written assurance from State officials that State employment security agencies would acquire appropriate equities in the facilities for which costs were being amortized. (Report to the Secretary of Labor, B-133182, June 1, 1970)

17. Computation of Unemployment Benefits for Federal Civilian Employees.—In a survey of selected aspects of the reporting requirements established by the Unemployment Insurance Service, Manpower Administration, Department of Labor, relative to the program of unemployment insurance protection for Federal civilian employees, GAO examined the reporting to the Massachusetts Division of Employment Security of wages for selected Federal civilian employees of the Civil Service Commission's Boston regional office.

GAO's survey showed that (1) there was a need to revise the manuals provided to State employment security agencies and to Federal agencies to specifically require that wage reports be prepared on a basis consistent with applicable State laws governing unemployment compensation, (2) the wage reporting form needed to be revised to show the specific basis upon which wage reports were prepared by Federal agencies, and (3) greater care needed to be given to the preparation of wage reports by the Boston regional office.

The basis upon which wages are reported can affect the amount of benefits paid to beneficiaries and, correspondingly, can affect the amounts paid by the Department of Labor to the States as reimbursement for

benefit payments made to unemployed Federal civilian employees.

In January 1970, the Department informed GAO that, in response to GAO's recommendations, it was revising its instructions to Federal agencies and to State employment security agencies to make it clear that wages for former Federal civilian employees are to be reported on a paid basis unless the agency's records are maintained on some other basis; and that if the amount reported was computed on a basis other than wages paid, the reporting form should be clearly annotated to identify the reporting methods used. (Report to the Assistant Secretary for Manpower, Department of Labor, Dec. 31, 1969)

Federal Aid to Education

18. Administration of Federal Aid to Educationally Deprived Children.—Title I of the Elementary and Secondary Education Act of 1965—the Federal Government's largest single effort to improve elementary and secondary education in the United States—authorizes funds for programs designed to meet the needs of educationally deprived children who live in school areas having high concentrations of children from low income families. GAO reviewed in several States the manner in which the Office of Education, Department of Health, Education, and Welfare, was administering its responsibilities under Title I.

Program evaluation reports submitted to the Office of Education by the West Virginia Department of Education showed that children who participated in the program in that State received various educational benefits and there was a marked improvement in school attendance. GAO found, however, that certain aspects of the program administration could be strengthened.

Participating areas within the State were not selected in accordance with Office of Education criteria. Salaries of persons whose duties were not limited to the program were charged to the program. Equipment used in the regular school program was charged to the Title I program and State audits were not of the scope contemplated by Office of Education requirements.

GAO was informed that the Office of Education agreed with its recommendations and that the State had issued directives designed to correct a number of matters discussed in the report. (Report to the Congress, B-164031, Mar. 5, 1970)

19. Documentation of Consultants' Work.—

GAO's review of grants awarded by the Office of Education, Department of Health, Education, and Welfare, to 10 local educational agencies in Massachusetts under Title III of the Elementary and Secondary Education Act of 1965 showed that grantees generally had not received written reports from the consultants they had employed regarding the services furnished, nor had they documented the results of the work performed by such consultants. One of the major purposes of Title III is to stimulate and assist in the development and establishment of exemplary elementary and secondary school educational programs to serve as models for regular school programs.

In line with GAO's recommendation that grantees be required to obtain reports from consultants so that others can benefit from the results of their work, the Office of Education took steps to have such reports obtained and to have the results of consultations documented in the local educational agencies' files. (Report to the Commissioner of Education, Sept. 29, 1969)

20. Supervision and Control of Program for the Education of Indian Children.—

Under the Johnson-O'Malley program, the Bureau of Indian Affairs, Department of the Interior, through contractual arrangements with States and school districts, provides funds toward the cost of educating Indian children from reservations and Navajo children domiciled in Federal dormitories who attend public schools. The Bureau considers the program to be supplemental in that the funds are to be limited to school districts which, after exhausting all other sources of revenue, including other Federal aid, are unable to operate the district schools at adequate State standards.

In one State certain program funds for normal maintenance and operation of public schools were distributed on a formula or entitlement basis which did not consider the ability of the school districts, the counties, and, to some extent, the State to meet all or a portion of the costs of these operations. As a result, funds were provided to counties and school districts where needs may not have existed and the funds may not have benefited Indian children from reservations, but rather, may have reduced the local cost of educating all other children attending the public schools.

Also, the Bureau was paying the full cost of educating Navajo Indian children living in Federal dormitories while attending public schools although most of the children were residents of the State and some were residents of the county or school district in which

they attended public school. Additionally, in computing the amount of money distributed to school districts in one State, no reduction was made for the State aid received by the school districts for the Indian children participating in the dormitory program. In GAO's opinion, the school districts, counties, and States should share in the cost of educating these students.

The Bureau had delegated the administration of the program to the States without providing sufficient guidance for administering the program and without systematically monitoring State agency operations through adequate reporting and reviews. GAO found instances in each of the three principal States participating in the program where the distribution of Federal funds to the school districts appeared to have been improper or where the Bureau could not be sure that the funds had been used for their intended purpose.

GAO recommended that the Bureau (1) furnish program funds on the basis of demonstrated financial need, (2) encourage State and local participation in the cost of educating Navajo children who live in Federal dormitories, and (3) implement additional methods of supervision and control over the distribution and use of funds.

The Department of the Interior informed GAO that it was taking steps that would provide improved supervision and control in administering the program. Also, the Bureau indicated that the dormitory agreements should be renegotiated with a view to a complete phaseout of these agreements within the shortest time possible and that the State and local districts should assume responsibility for sharing the cost of educating their resident students. (Report to the Congress, B-161468, May 28, 1970)

Federal Aid to the Arts and the Humanities

21. Practices Followed in Awarding Grants.—

The National Endowment for the Arts (NEA), National Foundation on the Arts and the Humanities, had awarded grants to creative writers in amounts in excess of the amounts requested by many of the writers. Each received \$10,000, the maximum amount allowed by policy. Also, sabbatical leave grants had been awarded to recipients in amounts that were greater than one-half the recipients' annual salaries. This was not consistent with representations made to the Congress.

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NEA had also approved the applications received from two cities for sculpture projects although little information about the projects was submitted by the cities. One city had pursued its project with success while the other had not, after 2 years, resolved some of the basic questions concerning the project.

The Acting Chairman of NEA informed GAO that procedures had been developed which, in his opinion, are adequate to deal with any problems of the kind cited in GAO's report. (Report to the Acting Chairman, NEA, National Foundation on the Arts and the Humanities, B-158811, July 9, 1969)

Federal Regulatory Activities

22. Enforcement of Standards for Sanitation, Facilities, and Moisture Absorption at Federally Inspected Poultry Plants.—The Poultry Products Inspection Act provides for the inspection of poultry and poultry products which are processed in plants engaged in interstate or foreign commerce to insure that the poultry and poultry products are wholesome, free from adulteration, and processed under sanitary conditions. The Department of Agriculture's Consumer and Marketing Service (C&MS), which is responsible for administering the inspection program, needed to strengthen its enforcement procedures to insure that minimum standards for sanitation, facilities, and moisture absorption were met by federally inspected poultry plants.

GAO identified 40 plants that were reported for repeated violations of minimum standards over periods ranging from 6 months to over 5 years. Most of the violations involved sanitation requirements.

Because C&MS did not take timely action to suspend or terminate inspection services at these plants, the consuming public was not adequately protected and the management at other federally inspected plants could infer that violations would be treated with minimum consequence. During a period of suspension, plants cannot process poultry or poultry products for sale in interstate or foreign commerce.

GAO also identified 44 plants that were allowed to ship poultry containing water in excess of that permitted by regulations, thus increasing the cost to the consumer.

C&MS informed GAO of certain actions it had taken or planned to take in response to GAO's recommendations to insure adequate sanitation in inspected plants. C&MS stated that:

Suspension action was being or would be taken on plants unwilling to provide acceptable sanitary conditions.

Instructions to field personnel were being amended to insure proper understanding of their authority to take action to insure proper plant sanitation.

Regional directors having responsibility for the plants identified in GAO's review had been advised of the need for immediate in-depth reviews of such plants and for taking appropriate action, including suspension of inspection, should the nature of current findings warrant such action.

C&MS also informed GAO that it planned actions to prevent poultry from being distributed until excessive moisture had been removed. (Report to the Congress, B-163450, Sept. 10, 1969)

23. Sanitation Standards at Meat Plants Receiving Federal Inspection or Grading Service.—Under the Federal Meat Inspection Act, the Consumer and Marketing Service (C&MS), Department of Agriculture, has the responsibility for establishing and enforcing sanitation standards in federally inspected meat plants. Inspectors assigned to the plants are responsible for enforcing the sanitation standards.

C&MS also is responsible for insuring that sanitation standards are maintained by nonfederally inspected plants that receive Federal grading service—a marketing service provided to meat plants upon request.

To determine the adequacy of C&MS's enforcement of sanitation standards, GAO visited 40 federally inspected plants and eight nonfederally inspected plants receiving Federal grading service—primarily those which C&MS records indicated had sanitation problems. During the visits, GAO staff members were accompanied by C&MS supervisory personnel and evaluations of the plants were made in accordance with C&MS standards.

C&MS inspection personnel were not uniform in their enforcement of sanitation standards and generally were lenient with respect to many unsanitary conditions unless product contamination was obvious. At 36 of the 40 federally inspected plants and at the eight nonfederally inspected plants, animals were being slaughtered or meat products were being processed for sale to the consuming public under unsanitary conditions. GAO observed instances of product contamination at 30 of the federally inspected plants and five of the nonfederally inspected plants.

GAO was unable to ascribe to any one cause the failure of inspection personnel to require plant managements to promptly and effectively correct unsanitary conditions, but believes that a primary cause for the lack of uniformity and leniency in enforcement of sanitation standards was a lack of clear and firm criteria setting forth required actions to be taken when unsanitary conditions were found.

Weaknesses in C&MS's system for reporting on plant reviews also contributed to the inadequate enforcement of sanitation standards at federally inspected plants. Because reports generally did not show what action, if any, was taken to correct reported unsanitary conditions, information was not readily available to C&MS management as to whether appropriate and timely corrective actions were required by inspection personnel.

The Administrator, C&MS, stated that a major inspection improvement program under way in C&MS was completely in line with GAO's recommendations, and he informed GAO of specific actions taken or planned.

Inspection was discontinued at five of the 40 federally inspected plants GAO visited, conditions in 27 had been improved to meet C&MS's sanitary requirements, two of the eight nonfederally inspected plants ceased operations following withdrawal of recognition for Federal grading service, and four nonfederally inspected plants' operating conditions had been made acceptable. In the remaining eight federally inspected plants and the two nonfederally inspected plants, action had been taken to protect the product while the remaining needed plant improvements were being completed.

The actions taken by C&MS and the further actions outlined by the Administrator, if fully implemented, substantially comply with GAO's recommendations for improvement and will provide greater assurance to the consuming public that meat products are processed under sanitary conditions. Continuing efforts of all inspection personnel to require compliance with sanitation standards are vital, however, to maintaining the integrity of the inspection program and insuring the consuming public of a wholesome product. (Report to the Congress, B-163450, June 24, 1970)

24. Food Inspection Roles of Federal Organizations.—Federal food inspection started in 1891. The function evolved from piecemeal legislation and regulations designed to solve specific problems as they arose. Because of their relatively limited scope, the laws and

related regulations do not provide a clear expression of overall Federal policy on food inspection. As a result, parts of the function are performed by many Federal, State, and local organizations.

Federal food inspection activities are performed by the Departments of Agriculture; Defense; Health, Education, and Welfare; and Interior. About 14,500 people are involved in Federal food inspection at an annual cost of about \$185 million. About \$48 million of this amount is reimbursed by users of certain of the inspection services.

Similar inspection activities are frequently performed by more than one organization, at the same commercial establishment, and often on the same food product. For example, at a dairy products company GAO visited:

Military veterinarians made monthly sanitary inspections and obtained bimonthly milk samples which were analyzed for bacteria and for butterfat content.

One group from the Department of Agriculture checked plant sanitation quarterly to qualify the plant for grading services, while another group obtained butter and cheese samples eight times a month.

Personnel of the Food and Drug Administration inspected periodically for potential health hazards.

The State health department inspected for sanitation and analyzed fluid milk for bacteria, at least quarterly, to qualify the plant for the approved listing of the U.S. Public Health Service.

Many of the inspections are made for different purposes and vary in degree. However, GAO believes that a more effective and economical method of performing the Federal food inspection function could be devised.

Several Federal agencies have established food standards, some for the same item. Although more than one standard for the same food item may not be improper in itself, it has caused dissatisfaction among food suppliers.

Agreements have been made between organizations to establish clearer lines of responsibility, to make more effective use of the skills and experience of each, and to reduce overlap. Reaching such agreements has been time consuming and the agreements sometimes have been difficult to administer.

There are basic differences in the concepts and practices of the inspecting organizations. Some of the differences involve:

The extent of reliance placed on food venders for product quality.

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The desirability and extent of use of statistical sampling techniques for product inspection.

Federal surveillance of State and/or local inspections in lieu of direct Federal inspection.

GAO recommended that the Director, Bureau of the Budget, make a detailed evaluation of the food inspection function to determine the most effective method of improving the administration of the function. The study should determine the feasibility of consolidating at least some of the inspections and it could draw upon the skill and experience of the agencies performing inspections. The findings and recommendations of the evaluation should be reported to the Congress as soon as possible since reconsideration of existing legislation may be involved.

Federal agencies that make food inspections agreed that there is a need for reassessing the food inspection function and the Bureau of the Budget agreed to make the evaluation of the function when sufficient resources are available. (Report to the Congress, B-168966, June 30, 1970)

Grants to States for Public Assistance

25. Participation in Costs of Care for the Mentally Retarded in State Institutions.—The State of California certified significant sections of its four State institutions for the mentally retarded as skilled nursing homes and, from September 1968 through August 1969, claimed \$14.2 million from Federal funds for residents of these institutions on the basis that they were Medicaid patients in need of, and receiving, skilled nursing care.

GAO found that the claims had not been made on the basis of the persons' need for skilled nursing care but simply on the basis of their presence in institutions certified by the State as skilled nursing homes. In addition, evidence indicated that since January 1969 the State institutions may not have met nurse staffing standards prescribed by HEW for participation in the Medicaid program.

After GAO inquired about the correctness of California's claims, an HEW medical review team visited the State institutions and reported that 88 percent of the individuals included in its review did not need skilled nursing care and that only custodial care—not skilled nursing care—was being provided to most of them. According to HEW, at least seven other States were claiming over \$71 million of Federal

funds annually for skilled nursing care for persons in State institutions for the mentally retarded.

GAO recommended that the Secretary, HEW, insure that the States determine, on a case-by-case basis, the types and levels of skilled nursing care essential to meet the needs of mentally retarded persons in State institutions and make periodic evaluations to insure that the types and levels of care prescribed for them is, in fact, provided. Also the Secretary should determine whether past claims by the State of California and other States were correct. GAO suggested that, in arriving at the amount of any necessary adjustments of Federal payments, the question concerning nurse staffing standards be resolved.

HEW stated that (1) it would take the actions GAO had recommended, (2) it had made or scheduled fact finding visits to four additional States to determine whether problems similar to those in California exist in those States, and (3) visits to additional States would be scheduled. The State of California informed HEW that reviews in that State had already resulted in the termination of billings for persons found not to need skilled nursing care. (Report to the Congress, B-164031, May 11, 1970)

26. Federal Financial Participation in Administrative Costs of Public Assistance Programs.—

In a 1967 report to the Congress on the financial participation of the Department of Health, Education, and Welfare (HEW) in administrative costs of public assistance programs in Los Angeles and San Diego counties in California, GAO pointed out a need for improvement in controls over State administration of federally aided public assistance programs. It was estimated that questionable payments made by HEW for administrative costs had amounted to as much as \$1.5 million.

A followup review showed that, although HEW had taken certain actions to insure that public assistance programs are properly and efficiently administered, additional steps were necessary to resolve GAO's prior questions relating to California's claims for Federal financial participation in the cost of providing social services. The HEW Audit Agency had raised similar questions during reviews in the State of California and other States. For example, the HEW Audit Agency had questioned claims amounting to \$15 million and \$1.4 million, respectively, in two other States.

HEW agreed with GAO's recommendation that timely resolution be made of the questioned claims and stated that it would expedite the settlement of

past claims made by the State of California. (Report to the Secretary, HEW, B-164031, Oct. 10, 1969)

27. System for Reviewing Determinations of Eligibility of Recipients of Public Assistance.—

At the request of the chairman, House Ways and Means Committee, GAO monitored a special review of the aid to families with dependent children (AFDC) program in New York City conducted by the Department of Health, Education, and Welfare (HEW) and the New York State Department of Social Services.

GAO reported to the chairman that the HEW-State review had been carried out in a competent and effective manner in accordance with plans and instructions agreed upon by HEW and State officials and that the HEW-State report issued to the chairman presented a fair overall summarization of the results of the review. However, GAO did not agree with HEW-State conclusions as to the reasons for the rise in the AFDC caseload, the eligibility and correctness of AFDC payments, and the problems which hinder provision of employment and self-support services to AFDC recipients. Changes were needed in the quality control system used by the States to evaluate eligibility determinations, since it did not alert responsible officials to the high rate of ineligibility found during the special review.

After completion of GAO's work in New York City, HEW revised the quality control system and planned to have the revised system implemented by all States on October 1, 1970. Also, HEW planned to contract with a private organization to monitor the plans and operations of the State agencies in carrying out the work related to quality control. (Report to the chairman, House Ways and Means Committee, B-164031, Oct. 17, 1969)

28. Administration of Selected Medical Care Programs.—

During GAO's review of the maternity and infant care and children and youth programs administered by the Children's Bureau, Department of Health, Education, and Welfare (HEW), it was noted that the Bureau had approved grants and authorized funds for certain projects under these programs without adequate evidence to support the levels of effort and the goals proposed by the grantees. In addition, the Bureau had not periodically adjusted amounts which were initially set aside for approved projects even though the actual level of effort and the expenditures for the projects in subsequent periods clearly showed that adjustments were warranted.

In certain projects, the number of patients actually served ranged from 19 to 66 percent of the number the grantees had proposed to serve during fiscal years 1965 through 1967, but the authorized project funding had not been reduced. As a result, Federal funds which could have been used to finance other projects were not available.

In other projects, inpatient hospital care had been provided to patients who were not eligible for such care, contrary to HEW instructions, and certain grantees were unable to demonstrate that they had provided the agreed upon amount of matching funds.

In response to GAO's recommendations for improvement, HEW replied that it had built an evaluation process into the programs; that, to the extent possible, staff time would be devoted to more comprehensive evaluations; and that regulations were being revised and policy and procedure manuals for both programs were being improved and updated. According to HEW, these actions, combined with continuing project evaluation and review, should result in improved project management. (Report to the Secretary, HEW, B-164031, Nov. 13, 1969)

29. System for Reviewing Determinations of Eligibility of Recipients of Public Assistance.—

Based on reports of samplings made by the Ohio State Department of Public Welfare, GAO estimated that public assistance in one county in Ohio—the county having the largest caseload—was extended to at least 4,300 ineligible persons during the year ended March 31, 1969, at a cost of millions of dollars, and incorrect payments of millions of dollars—both overpayments and underpayments—were made to eligible persons.

These deficiencies were attributed to the failure of caseworkers to obtain and verify information, the frequent turnover of caseworkers, inadequate supervision and training, and complexity of State guidelines. Also, improper and incorrect payments were allowed to continue because redeterminations of eligibility and correctness of payments were not made promptly. These redeterminations or rechecks are called for by the quality control system prescribed by the State.

GAO recommended that the Department of Health, Education, and Welfare assist the State to overcome the existing problems, that it impress upon the State the need for timely and accurate determinations, and that it enforce its stated policy of reducing the Federal share of payments to persons whose ineligibility is de-

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tested after redeterminations are due. (Report to the Secretary, HEW, B-164031, May 15, 1970)

Highway Programs

30. Upgrading Deteriorated Segments of the Interstate Highway System.—The Federal-Aid Highway Act of 1956 provided that highways be designed to carry the types and volumes of traffic forecast for the year 1975. A 1963 amendment to the act eliminated reference to the year 1975 and provided that highways be designed to carry the types and volume of traffic forecast for 20 years from the date of authorization. In January 1967, the Federal Highway Administration, Department of Transportation, authorized placement of an added layer of pavement (overlay) to certain deteriorated segments of the Interstate Highway System which were authorized for construction prior to the date of the 1963 amendment where it was determined that the existing pavement, with normal maintenance, would not provide adequate performance for 20 years.

There were significant differences among the States in (1) the methods used for evaluating the condition of the highway surface to determine whether an overlay was necessary and (2) the design procedures used to establish the amount of overlay needed. Also, there was a need for more precise procedures to insure that overlays are placed at the proper times and at depths needed to provide necessary serviceability.

Although the Department did not concur in the need for these actions, GAO recommended that the Federal Highway Administration (1) establish maintenance standards for the Interstate System, (2) recognize, through limiting the amount of Federal participation, that overlays relieve the States of a portion of their maintenance responsibilities, and (3) establish uniform standards to provide more assurance that overlays are applied in a timely manner and in the proper amount.

There will be a continuing need to periodically upgrade completed segments of the Interstate System through overlays. Because of this long term need and the substantial costs involved, which vastly exceed the amount reported to the Congress, and because the intent of the Congress was not clear, GAO suggested that the Congress might wish to express its intent relative to the use of Interstate funds to upgrade completed segments of the Interstate System. Also, GAO suggested that the Congress might wish to consider the long term need for overlays in its deliberations on the

funding of the Interstate System, any future expansions thereof, or any follow-on highway programs. (Report to the Congress, B-164497, June 30, 1970)

31. Appraisal Practices for Right-of-way Acquisition.—Because of unsatisfactory practices in five States, the Federal Highway Administration, Department of Transportation, required those States to evaluate the reasonableness of the cost of rights-of-way acquired in prior years. The retrospective appraisal programs confirmed that many appraisals made in prior years did not provide a reasonable basis for determining the Federal share of the cost.

To a large extent, these programs were inadequately planned and executed and, as a result, differed among the States. Because of lack of prior agreement on the use to be made of the results of the program, the States were unwilling to accept the results as a basis for determining the extent of Federal participation in the acquisition costs.

In spite of the problems noted, GAO concluded that retrospective appraisal programs, if properly planned and executed, could be used effectively in resolving situations where the extent of Federal participation is found to be questionable.

The Department of Transportation agreed with these recommendations and took or promised to take action which, if properly implemented, should minimize the recurrence of the problems noted in the retrospective appraisal programs. Also, this action should minimize problems noted in current appraisal activities, where unsatisfactory practices were found in four of the five States. (Report to the Congress, B-164497, Oct. 29, 1969)

Hospital Construction

32. Ratings and Surveys for Approving Federal Financial Assistance.—The Health Services and Mental Health Administration (HSMHA), Department of Health, Education, and Welfare (HEW), administers the Hill-Burton program of grant assistance for the construction and modernization of hospitals.

GAO's review showed that the physical plant ratings completed by some State agencies as a prerequisite for obtaining grant funds had not given proper weight to the relative importance of various features of hospital construction, departments, and services being rated and that certain refinements in the criteria prescribed by HEW would be desirable. Also, a need was



Cooperative efforts in the development and protection of a dug well, Crown Point Health District, Navajo Reservation. The Naoajos participating in this project not only donated their labor, but also their horse-drawn wagons for transporting materials. The tribe supplied materials and the pump. The Public Health Service furnished technical direction and supervision. (New Mexico)

indicated for additional HEW guidance to State agency personnel conducting physical hospital plant surveys.

In response to GAO's recommendation for improving physical plant evaluation techniques, the Administrator, HSMHA, stated in April 1970 that an advisory council had been assigned the responsibility of reviewing evaluation criteria and recommending improvements. Also, HEW instructions to State personnel carrying out plant surveys had been clarified.

GAO noted also the absence of a system or method for periodic updating of the original plant survey data

assembled by State personnel. As a result, the benefits to be obtained from current plant evaluations were not fully realized by some of the States. Revised instructions issued by HEW for updating physical plant evaluations should rectify the situation. (Report to the Administrator, HSMHA, Oct. 15, 1969)

Indian Health Programs

33. Contributions Toward the Cost of Constructing Sanitation Facilities.—Under a law enacted in

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1959, the Indian Health Service, Department of Health, Education, and Welfare (HEW), administers a program for the construction of sanitation facilities for Indians. The legislative history of the law indicates, and the Indian Health Service's guidelines provide, that the construction of sanitation facilities for Indians is to be a cooperative effort among the Government, Indian tribes, and non-Indian beneficiaries of the facilities.

GAO's review of selected construction projects administered by four Indian Health Service area offices indicated a need for improved practices with respect to obtaining cash and labor contributions from Indian and non-Indian beneficiaries. It was found that:

Cash contributions by Indian tribes either had not been obtained or had been obtained in minor amounts in relation to the tribes' apparent ability to pay.

The Indian Health Service generally had not collaborated with the Bureau of Indian Affairs, Department of the Interior, in its programming of funds awarded to Indian tribes by the Indian Claims Commission.

Frequently no arrangements had been made for obtaining cash contributions from non-Indian beneficiaries of sanitation facilities constructed.

Some tribes had not been required to comply with their commitments to contribute labor to construction projects.

Indian Health Service Area Offices had not accumulated and systematically reported accurate and complete data pertaining to contributions of cash, labor, material, and equipment.

In response to GAO's recommendations, HEW and the Department of the Interior agreed to cooperate in programming tribal funds for essential needs of the Indians, including those for sanitation facilities. Also, HEW initiated action to improve management controls over contributions.

HEW did not comment, however, on the recommendation that the Secretary emphasize to responsible officials the intended cooperative nature of the program which requires them to seek contributions from individual beneficiaries. GAO believes this matter requires further attention. (Report to the Congress, B-164031, Apr. 10, 1970)

Land Management and Natural Resources

34. Review of the Government's Helium Program.—The chairman, House Committee on Interior and Insular Affairs, requested GAO to review the long-range program for the acquisition, production, distribution, and storage of helium which the Bureau of Mines, Department of the Interior, was authorized in 1960 to carry out to insure a sustained supply to meet essential Government needs. GAO was advised that the committee intended to examine the program to determine the reasons for numerous continuing deficiencies and for the advisability of continuing the program in its present form.

GAO reported that significant changes have occurred since 1960 which could have an effect on the Department's ability to meet certain program objectives. For instance, it appears that about 69 billion cubic feet of helium may be stockpiled by 1986 if the program continues unchanged as compared with the 43 billion cubic feet forecast when the program was initially undertaken. Also, rather than being self-liquidating over a 25- to 35-year period as required by the Helium Act, the program may owe the Treasury about \$1.5 billion for borrowings and interest.

There may be a need to reappraise the basic concept and size of the program in view of:

The possible leveling off of the demand for helium.

The potential for discovery of new helium reserves.

The improvement in helium extraction technology which permits economical extraction of gas resources not previously considered in estimating recoverable helium resources.

GAO suggested that, within the framework of the present helium conservation program, the committee might wish to consider three possible alternatives which could bring the program more in accord with what was originally contemplated. The committee might also wish to reevaluate the concept of the Government's program of procuring and storing large quantities of helium for an indefinite period. The committee might wish to consider:

Clarifying the goal to be accomplished by the helium conservation program.

Reevaluating the long-range need for helium considering (1) the potential for technological im-

provements to permit economical extraction from gas with low helium concentrations thus supplementing known supply sources, (2) the potential for finding suitable substitutes for helium applications, and (3) the stockpiling of quantities necessary to meet only the essential requirements of the Government in future years.

The potential for new discoveries and whether it would be desirable for the Government to initiate a program for the exploration of new helium reserves leading to the eventual establishment of national in-place helium reserves.

Reevaluating the present indirect method of financing the helium program.

(Report to the chairman, House Committee on Interior and Insular Affairs, B-114812, Sept. 10, 1969)

35. Leasing of Federal Lands for Development of Oil and Gas Resources.—Most of the leases awarded by the Bureau of Land Management (BLM), Department of the Interior, for the development of oil and gas resources on Federal lands have been granted on a noncompetitive basis and, in many cases, at prices less than their indicated fair market value.

Of the 15,254 leases issued by BLM in fiscal year 1968, 14,962 were awarded noncompetitively because of a statutory requirement that lands not located within the boundaries of a known geologic structure of a producing oil or gas field, as defined by the Geological Survey, Department of the Interior, must be leased noncompetitively to the first qualified applicant. Generally, the geologic data needed to determine whether lands offered for leasing are within such a structure are not available to the Department before leasing and drilling.

The substantial public interest in acquiring noncompetitive leases indicated that effective price competition could have been obtained if the leases had been awarded competitively. GAO believes that the Government should use competitive bidding to a greater extent to insure that the lands are leased at prices that more nearly approximate the lands' fair market value. For example, it was estimated that, for the lease of 2.5 million acres of Federal lands in the general vicinity of one field subsequent to the discovery of oil, the Government may have received about \$24 million less than fair market value because the leases had not been awarded competitively.

In addition, the increased use of competitive bidding would eliminate or reduce certain undesirable

aspects of awarding noncompetitive leases by means of a drawing of simultaneously filed lease applications, such as the multiple filing of applications to increase the chances of acquiring a lease and the acquisition of leases primarily for speculation rather than for the development of oil and gas resources.

Also, there were indications that the statutory right of lessees to assign to other persons leases in units as small as 40 acres impedes rather than induces the development of oil and gas resources.

In commenting on GAO's draft report, the Department stated that of three alternatives it had considered for extending competitive bidding, it preferred the partially competitive systems.

GAO believes that the disposal of oil and gas rights on Federal lands should be based on the principle of a fair market return to the Government and that this objective can best be achieved under a competitive bidding system. Accordingly, GAO recommended to the Congress that the Mineral Leasing Act be amended to (1) require that oil and gas leases of all Federal lands be awarded competitively unless otherwise justified and (2) increase the minimum acreage limitations applicable to the assignment of the leases. (Report to the Congress, B-118678, Mar. 17, 1970)

36. Acquisition of Land for National Recreation Areas Containing High Cost Improved Properties—

The National Park Service (NPS), Department of the Interior, had acquired or planned to acquire high cost improved properties located on or near the boundaries of lands authorized by the Congress as national recreation areas. These properties could have been or could be excluded from the areas without interfering with area development. Changes in boundaries to exclude such properties not yet acquired would result in significant benefits to NPS, especially in those areas where authorized funds have fallen far short of the amount required to complete the land acquisition and where considerable amounts of unimproved land with lower estimated costs an acre remain to be acquired.

The Department of the Interior rejected GAO's suggestion that consideration be given to adjusting the boundaries of certain recreation areas to exclude high cost improved properties and stated that some acquisitions of expensive properties are necessary to protect scenic, historical, and cultural values.

In enacting legislation authorizing the establishment of national recreation areas, the Congress frequently has to define boundaries before important facts, such as the cost of various tracts of land, are known. GAO

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therefore recommended that the Congress, in enacting such legislation, provide the Secretary of the Interior with guidelines for making changes in established boundaries when the acquisition of high cost properties located on or near the boundaries is involved.

GAO also recommended that the Congress require the Secretary to prepare an analysis of the location and estimated cost of acquiring high cost properties on the perimeter of those authorized recreation areas for which additional funds are needed and to justify to the Congress the desirability of acquiring such properties. (Report to the Congress, B-164844, Apr. 29, 1970)

37. Estimates of Cost of Acquiring Land for National Recreation Areas.—Several estimates prepared by the National Park Service, Department of the Interior, as a basis for authorization by the Congress of national recreation areas and the appropriation of funds therefor contained substantial errors, were inadequately documented, or did not consistently consider all pertinent facts.

In response to GAO's suggestion that definite procedures be established and used consistently in the preparation of land acquisition cost estimates, the Department of the Interior replied that, as a standard procedure, qualified professional appraisers would be used for all preliminary land cost estimates and for any additional proposals to be made to the Congress concerning existing areas. This action should result in more meaningful estimates of land acquisition costs. (Report to the Congress, B-164844, Apr. 29, 1970)

38. Establishment of Priorities for Grants to States for Outdoor Recreation Projects.—The Bureau of Outdoor Recreation (BOR), Department of the Interior, in approving outdoor recreation projects for financial assistance from the Land and Water Conservation Fund (L&WCF), has a stated policy of giving priority to those projects which serve the general public. However, BOR approved several projects which, in GAO's opinion, were not in accord with this policy.

For example, one project, approved in the amount of \$211,250, offered extremely limited recreation to a small segment of the general public in an area having a surplus of general recreational land and facilities offering similar recreational opportunities. Another project, approved in the amount of \$565,700, was for the construction of a modern small craft harbor where, of the 161 berths to be constructed, 96 were to be used

for berthing boats on a permanent or semipermanent basis, thus restricting public use of the facilities.

GAO was informed, in response to its report, that BOR found each of the projects to be in the public interest and fundable under the L&WCF Act. GAO did not question the eligibility of the projects for funding, but it believed that projects serving a relatively small segment of the public or providing limited opportunities should not be accorded a high priority for the limited funds available, (Report to the Secretary of the Interior, B-168162, Nov. 13, 1969)

Loan Programs

39. Reviewing Loan Applications.—The Small Business Administration (SBA) loan specialists' analyses of borrowers' business operations and financial conditions were not sufficiently comprehensive to adequately determine whether repayment was reasonably assured from earnings of the borrowers' businesses. Such assurance is required by SBA's basic policies which are based on provisions of the Small Business Act.

GAO's review of a selected number of loan files showed that most loan applications were recommended for approval by loan specialists without adequate analyses of significant changes, trends, and inconsistencies indicated by financial data submitted by applicants or without adequate investigation of contradictory or questionable information in financial data submitted in support of loan applications. Loan specialists had also recommended approval of many loans without having available for analyses adequate and reliable financial data on borrowers' operations.

GAO recommended that the Administrator, SBA, require, as a prerequisite to loan processing, that the borrower furnish the financial statements necessary for an adequate analysis and that SBA provide the loan specialists with criteria for use in determining the circumstances under which certain additional financial data should be obtained prior to loan processing. GAO also recommended that the Administrator give consideration to assigning the financial analysis function to employees who specialize in financial analyses and who are independent of the other loan processing functions.

In response, the Administrator stated that actions, such as increased training of loan specialists and increased monitoring of field activities by headquarters personnel, had been taken to improve the supervision over loan processing. SBA also inserted statements in

its loan processing directive concerning additional financial data which could be obtained in connection with analyses of loan applications. GAO believes, however, that specific criteria should be provided the loan specialists for use in determining the circumstances under which such additional financial data should be obtained. The Administrator did not specifically comment on the proposal that SBA consider utilizing personnel other than loan specialists to assist in financial analyses. (Report to the Congress, B-114835, Nov. 6, 1969)

40. Quotas for Processing Loan Applications.—GAO questioned the use by the Small Business Administration (SBA) of budgetary standards (the number of business loan applications to be reviewed by a loan specialist in one month) for processing loans which do not allow sufficient flexibility for the loan specialists to adequately analyze and recommend approval or disapproval of a loan.

SBA officials informed GAO that budgetary standards were eliminated in October 1966; however, GAO's review showed that SBA area and regional officials and loan specialists were not aware that the standards had been eliminated. The Administrator, SBA, stated that SBA needed budgetary standards and that SBA was considering establishing realistic standards on a national basis.

GAO recommended that SBA inform the regional offices that budgetary standards had been eliminated and that, in establishing new budgetary standards on a national basis, SBA allow sufficient flexibility to permit adequate analyses of loan applications. The Administrator stated that the budgetary standards had been removed from the SBA national directives and that the work of a task force established in July 1969 would result in improvements in the standards. (Report to the Congress, B-114835, Nov. 6, 1969)

41. Participation by Nonbank Sources in SBA Business Loan Program.—GAO concluded that opportunities to obtain additional participation in the business loan program by nonbank sources such as insurance companies, credit unions, and pension funds merited greater attention by the Small Business Administration (SBA).

SBA regulations provide that financial assistance is deemed to be available elsewhere on reasonable terms, unless specific conditions are satisfied. Included among these conditions are requirements that the applicant's bank has declined to approve a loan and that other

sources of funds, such as equity financing, have been considered and are not obtainable under reasonable circumstances.

GAO's survey showed that, between fiscal year 1961 and the first 10 months of fiscal year 1969, SBA significantly increased the participation by banks in the business loan program. SBA headquarters officials were unable, however, to furnish specific information on the extent of their efforts to obtain participation from nonbank sources, and Seattle, Wash., regional officials advised GAO that they had not actively explored nor solicited such participation.

Most of the representatives of various nonbank sources contacted stated that they had not been aware of the features of the program but expressed an interest in participating.

In response to the recommendation that SBA increase its efforts to obtain additional participation by nonbank sources, GAO was informed that SBA officials had discussed with officials of State pension funds, insurance companies, and credit unions the possibility of their participating in the program and that several State pension funds were now participating. GAO was also advised that participation by insurance companies has been limited and credit unions have not participated but discussions with representatives of these organizations were continuing. (Report to the Administrator, SBA, July 31, 1969)

42. Appraising Liquidation Value of Collateral for Loans.—The Small Business Administration's (SBA) current practice of not estimating the liquidation value of collateral does not provide responsible officials with sufficient information on the degree to which a proposed business loan is secured.

Values provided by the borrower were used for 14 of the 21 loans GAO reviewed. These values were about 4 times greater than the values subsequently placed on the collateral at the time of liquidation. GAO believes that a comparison of the market value with the estimated liquidation value of the collateral should have been made at the time of loan application to permit a reasonable assessment of the risks involved in making the loans.

SBA discontinued the practice of estimating liquidation value of collateral in April 1964 because of a belief that the practice had resulted in loans being declined on the basis that they were not sound. Because GAO believed that this was not an adequate reason for abandoning what would seem to be a sound management practice, it recommended that SBA establish

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a procedure for realistically estimating the liquidation value of collateral at the time loans are processed for approval. Also, to assure that loans of sound value are not turned down solely for lack of collateral, GAO stated that SBA officials might need additional instructions in applying other acceptable criteria used in the loan approval process.

The SBA Administrator was of the opinion, however, that SBA's procedures were adequate. (Report to the Administrator, SBA, July 31, 1969)

43. Loans to Delinquent Borrowers.—The Farmers Home Administration (FHA), Department of Agriculture, is authorized to make operating loans for purchase of feed, seed, fertilizer, insecticides, farm supplies, etc., to farmers and ranchers who have farm backgrounds and training or farm experience sufficient to insure reasonable prospects of success in their proposed farming operations. At June 30, 1968, cumulative operating loans for active borrowers totaled about \$827 million, of which about \$115 million or 14 percent was delinquent.

On the basis of its evaluation of the records of 204 delinquent borrowers in 20 counties in three States and discussions with FHA county supervisors, GAO concluded that FHA continued to make loans and provide assistance to delinquent borrowers who had been consistently unsuccessful in achieving income and production goals set by FHA.

GAO concluded also that production and income goals established by county supervisors when planning for additional loans to delinquent borrowers were generally unrealistic in terms of the borrowers' prior accomplishments, and FHA's system for reporting on delinquent borrowers was not adequate to disclose the nature and extent of individual borrower delinquency problems.

GAO recommended that the Administrator, FHA:

Establish the factors that must be present to constitute "reasonable prospect of success."

Develop a system to provide FHA State office officials with current and complete information as to the nature and extent of individual borrowers' delinquency problems.

Consider requiring State office review and approval of applications for additional loans from seriously delinquent borrowers.

Require State office officials to see that (1) adequate annual reviews are made on delinquent borrowers' accounts and (2) in making additional loans,

the feasibility of loan repayment is based on realistic income and production goals.

The Administrator agreed with these recommendations and informed GAO of actions he planned to take. (Report to the Congress, B-114873, Dec. 4, 1969)

44. Fees for Processing Loan Applications.—

The Farmers Home Administration (FHA), Department of Agriculture, makes direct and insured rural housing loans to farmers and other rural residents to finance the purchase, construction, improvement, repair, or replacement of dwellings and essential farm service buildings. About 174,000 loans totaling about \$1.3 billion were expected to be made in fiscal year 1970.

FHA performs a number of services without charge to the applicant in processing a rural housing loan application, such as obtaining credit information on the applicant, reviewing detailed plans and specifications for proposed construction, and making appraisals of loan security. GAO estimated that the assessment of fees for processing applications for rural housing loans would result in revenues amounting to between \$6.1 and \$7.8 million annually.

Although it is a general policy of the Government that Federal agencies charge a fee for services that provide recipients with special benefits beyond those which accrue to the public at large, FHA was not charging fees to applicants for rural housing loans because it believed that the Congress intended that no fees be charged and that the loans are made to low income families who would be unable to pay a fee.

Charges for processing loan applications are generally assessed under other Federal housing loan programs—notably those of the Federal Housing Administration and the Veterans Administration. The majority of applicants for the Farmers Home Administration rural housing loans had incomes of from \$6,000 to over \$10,000, which were substantially above the poverty level income established by the Department of Labor for rural farm and nonfarm families. In many instances, the incomes compared favorably with those of applicants for housing loans under a major housing program of the Federal Housing Administration.

FHA also performs services similar to those provided applicants for rural housing loans when it processes applications for other types of loans that involve the acquisition of real property. The applicants for these loans are not required to pay fees for processing loan applications. FHA projected that it would

make about 23,000 such loans totaling about \$624 million in fiscal year 1970.

The Administrator, FHA, informed GAO that FHA would adopt the recommendation that fees be charged for processing applications for rural housing loans which would, to the extent practicable, recover the processing costs and that FHA would reappraise its approach to fees on other loan programs at the time it developed fee schedules for the rural housing loan program. (Report to the Congress, B-114873, Jan. 23, 1970)

45. Computation of Interest on Loan Repayments.—The Commodity Credit Corporation (CCC), Department of Agriculture, had been using a simplified method of computing interest on grain price-support loans under which borrowers were charged interest on loan repayments at the rate of 30 cents per \$100 exclusive of fractional amounts under \$100, for each month or fraction thereof that the loans were outstanding, exclusive of the month in which repayment was made. No interest was charged on loans repaid in the same month as disbursed or on loans repaid in installments under \$100.

CCC anticipated, at the time it adopted the simplified method in 1964, that the interest it received would approximate interest computed at an annual rate of 3½ percent. GAO's computations showed, however, that the overall effective annual interest rate on repayments of 1967-crop grain loans was 3.39 percent. Because the revenue was less than expected, GAO recommended that the method be reevaluated.

CCC revised its method to provide that interest on loans for 1970 and subsequent crops be charged on the nearest \$10 of principal repayment, rather than disregard fractional amounts up to \$99.99. Also, CCC eliminated the grace period for repayment of loans when the last day of a month was a nonworkday. GAO had questioned whether the grace period was equitable because repayments made on the first workday of a month were considered, for purposes of computing interest, as repayments in the preceding month and consequently bore no interest for that month.

CCC estimated that interest revenues would increase by about \$570,000 in fiscal year 1971 and that there would be additional interest revenues in ensuing years. (Report to the Executive Vice President, CCC, Apr. 25, 1969)

46. Measuring Effect of Loan Program.—A study released in July 1969 by the Farmers Home Adminis-

tration (FHA), Department of Agriculture, which administers the Economic Opportunity (EO) loan program designed to assist low income rural families in raising and maintaining their income and living standards, showed that borrowers in the program for 3 years had greater family income gains than borrowers in the program for 1 or 2 years.

In determining the progress made by each borrower, FHA included income from all sources—farms, non-agricultural enterprises, family income, including wages and salaries, and public assistance—to arrive at gross income. GAO expressed the view that, in order to properly evaluate the impact of the loan program, FHA should have included income only from enterprises financed by the EO loans. Inclusion of income from all other sources resulted in overstating gains attributable to the program.

Also, in determining borrowers' progress, FHA did not take into account the borrowers' obligations to repay loan principal. In GAO's opinion, this factor should be considered in measuring progress because it affects the amounts borrowers have left from net income to pay living expenses and raise their standards of living.

FHA did not agree that the gains of borrowers were overstated by including income from all sources, stating that supervision of borrowers included counseling on a wide variety of actions the borrowers might take to increase their opportunities and incomes.

GAO continues to believe that, to adequately show how well the loan program is achieving its objectives, statistics should be developed to show separately the extent to which the loans have assisted borrowers in raising their income and living standards. (Report to the Administrator, FHA, Jan. 30, 1970)

47. Use of General Obligation Notes as Security for College Housing Loans.—The Department of Housing and Urban Development (HUD) required private educational institutions to issue revenue bonds as security for direct Federal loans made for the construction of housing facilities under the college housing program.

Before a borrowing institution offered its bonds for sale, it had to have a bond counsel render an opinion on the legality of the bond issue and prepare the bond indenture. This requirement was based on a regulation that the bonds had to be offered for public sale. The requirement for public offering was eliminated in 1967, however, because the Government was the only bidder. The bond counsel fee, the cost of adver-

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tising, and other costs identified with the preparation and sale of bonds were included by the applicant in the total eligible project costs, part of which are borne by the Federal Government.

GAO estimated that, for the direct loan projects approved by HUD in fiscal year 1969, the Government could realize savings of about \$647,000 over the 40-year loan period if general obligation notes instead of revenue bonds had been used. Use of general obligation notes would have eliminated the counsel fees and bond printing costs. This would have reduced the amount the Government was required to lend and, hence, would reduce interest costs to the Government which makes the loans at 3 percent. Savings would be realized by the educational institutions also.

Subsequent to GAO's discussion with HUD officials, three trial projects were initiated using obligation notes, instead of revenue bonds, as security for direct Federal loans. HUD stated that it would advise GAO of the results of its study and any further actions that might be taken in the matter as soon as the trial projects and related studies were completed and evaluated. (Report to the Assistant Secretary, HUD, Mar. 30, 1970)

48. Frequency of Loan Disbursement.—The Guaranteed Student Loan program, administered by the Office of Education, Department of Health, Education, and Welfare (HEW), enables students attending colleges, universities, or vocational schools to obtain long term loans from banks, credit unions, savings and loan associations, or other participating lenders. Such loans are insured either by State or private nonprofit agencies or by the Federal Government when students or lenders do not have reasonable access to a State or private nonprofit loan insurance program. The Government usually pays the interest on the loans while the borrowers are in school and during a grace period afterwards. The Government bears all the losses for defaulted federally insured loans and a large portion of the losses for defaulted State or privately insured loans.

The Government paid interest totaling \$44.2 million through December 1968. Based on a statistical sampling, GAO estimated that interest payments would have been about \$8.9 million less if lenders had been required to disburse students' loans at the beginning of each period of the school year for which the funds were required rather than in a lump sum at the beginning of the first academic period. Also, the potential loss to the Government for defaulted loans would decrease by more frequent payments to students.

During GAO's review the Office of Education issued

instructions to encourage participating lenders to disburse loans in installments where appropriate. A random sample of loans made after the instructions were issued, however, showed that a significant number of lenders were continuing to disburse loans in lump sums.

GAO recommended that the Secretary, HEW, effectively arrange for lending institutions to disburse student loans on an installment basis when the funds are for use in more than one academic period. GAO was informed that Federal regulations would be amended to provide that lenders make disbursements in such installments as are deemed appropriate by the lenders with the exception that the funds disbursed during a given semester, quarter, or term are not to be greater than the amounts required by the students for that academic period. (Report to the Congress, B-164031, Apr. 20, 1970)

Low Rent Housing Programs

49. Administration of the Leased Housing Program.—The Department of Housing and Urban Development (HUD) and local housing authorities (LHAs) had imposed restrictions in the administration of the leased housing program for low income persons which impeded progress of the program. Also, LHAs' operating programs had not been designed or adjusted in line with the housing needs of low income persons and the availability of suitable vacant housing in the local areas.

Also, some LHAs were housing persons who were already adequately housed while other applicants continued to live in substandard dwellings. In many cases, LHAs negotiated unjustified higher rents for dwelling units than had been charged the occupants prior to their participation in the program, and some LHAs were providing assistance to persons who owned relatively large amounts of assets. Two LHAs were operating the leased housing program in such a manner that eligible applicants who had been on waiting lists for low rent public housing projects were not always afforded the opportunity to participate in the program.

GAO recommended that HUD give specific attention to these matters in its reviews of LHA leasing operations and, where leasing progress is being impeded because of LHA-imposed restrictions that go beyond the standards established by HUD, appropriate action be taken to remove the impediments.

HUD initiated some improvements in its administration of the leased housing program but did not agree

with the proposals regarding priorities or asset limitations. GAO therefore expressed the belief that the Congress might wish to consider whether priority should be given to persons who are not adequately housed and whether asset limitations should be established for determining program eligibility. (Report to the Congress, B-118718, Feb. 4, 1970)

50. Concrete Inspection and Testing Requirements.—Department of Housing and Urban Development (HUD) construction representatives and local housing authority (LHA) inspectors had not enforced contract requirements regarding concrete testing as a means of determining whether the concrete used in the construction of low rent housing projects complied with contract specifications.

Also, the contracts for some projects did not contain specific provisions regarding the frequency at which concrete compressive strength tests should be made as a means of determining compliance with contract requirements, even though concrete of specified compressive strength was required by the contracts. Generally accepted concrete testing standards require more tests than were made in such cases.

Weaknesses in construction inspections and deviations from contract specifications could result in adverse effects which may not appear for some years after the construction of a project has been completed.

HUD issued revised instructions emphasizing the importance of LHA inspectors' and HUD construction representatives' carrying out all of their responsibilities and fully enforcing all contract requirements. Also, HUD advised GAO that the HUD Office of Audit would give full consideration to scheduling reviews of HUD regional office activities and controls relating to low rent housing construction in planning program audits for fiscal year 1971.

GAO believed that certain actions in addition to those proposed by HUD were needed to strengthen its controls. Accordingly, it recommended that more effective use be made of HUD's regional construction representatives during their periodic visits to housing construction projects by having them place greater emphasis on determining whether on-site inspections by local housing authorities are adequate to insure compliance with contract specifications.

GAO also recommended that, in the absence of specific contractual requirements for the testing of concrete, local housing authorities be required to adhere to generally accepted concrete testing standards,

unless advance approval is obtained from HUD for justifiable deviations from such standards. (Report to the Congress, B-118718, Mar. 24, 1970)

Mapping

51. Map Pricing Practices.—An opportunity exists for the Federal Government to realize additional revenues if the Geological Survey, Department of the Interior, would sell its maps at prices based on their fair market value. In the determination of its map pricing structure, the Survey has followed the practice of pricing its maps on the basis of costs essentially in accordance with that provision of Bureau of the Budget (BOB) Circular No. A-25 which deals with Government services, rather than on the basis of the fair market value which is required by the circular when the Government sells property or resources.

GAO believes that maps are tangible commodities and that they would more properly be considered as resources or property and should not be sold at prices which are based solely on cost. Information obtained in GAO's review indicates that the fair market value of the Survey's maps is greater than the prices being charged. The potential additional revenues which could be realized if the Survey sold its maps at prices based on their fair market value could be significant because of the large volume of maps sold—five million in 1968.

The Department of the Interior remained of the opinion that the Survey's maps are a service and should be priced to recover essentially the cost of printing and distributing the maps.

However, BOB advised GAO that it planned to undertake a review of the broader issue implied in the question raised in this report; that is, whether maps produced by Federal agencies, and probably other services or products supplied by the Government, are services or property. BOB's objective in this review will be to develop policy guidance for the pricing of services and products that may not fall clearly into either the service or the product group discussed in BOB Circular A-25.

GAO considered BOB's planned review to be responsive to the matters discussed in the report; however, because of the additional cost recoveries that may be obtainable, GAO recommended that BOB undertake its review as soon as possible. In June 1970 GAO was informed that the review had been recently

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initiated. (Report to the Congress, B-118678, Sept. 3, 1969)

52. Coordination of Federally Financed Mapping Activities.—State and local agencies have been doing a significant amount of mapping, financed in part with Federal funds, under certain programs of the Departments of Transportation and Housing and Urban Development without coordinating this mapping with the national topographic program of the Geological Survey, Department of the Interior.

If the State and local agencies would use scales and standards comparable to those used by the Survey, some steps in the preparation of the Survey's maps for unmapped areas and in the revision of existing maps could be eliminated. Thus, savings could be realized by the Survey. However, in meeting the Survey's standards, there would be additional costs to Federal programs that finance in part State and local agency map preparation. GAO did not determine the potential net savings to the Federal Government.

During this review the Bureau of the Budget responded to GAO's suggestion by revising its Circular No. A-16 to provide for the coordination of mapping activities financed in part with Federal funds with the national topographic program whenever such coordination is practicable and feasible. (Report to the Congress, B-118678, Dec. 17, 1969)

53. Coordination of Federally Financed Mapping Activities.—There was a need for the Map Information Office (MIO) of the Geological Survey, Department of the Interior, to expand its activities to serve as a central source of information on mapping activities of Federal agencies and State and local agencies that conduct mapping activities with the assistance of Federal funds. Expansion of MIO's activities would promote increased and more effective use of maps, help reduce overlapping in mapping activities, and minimize the time and effort expended by Government agencies in locating usable data.

Although MIO was established to collect, classify, and disseminate information on maps available from Federal agencies and other sources, it generally performed this function only for the maps of the topographic series published by the Geological Survey.

GAO was informed that MIO planned to expand its activities as had been suggested and that initial steps had been taken. (Report to the Congress, B-118678, Dec. 17, 1969)

Medicare Program

54. Payments for Services of Supervisory and Teaching Physicians.—An association of supervisory and teaching physicians received payments of \$1.6 million under the supplementary medical insurance portion (part B) of the Medicare program for services claimed to have been provided by its member physicians. Hospital records indicated, however, that the professional services had been furnished, in almost all cases, by residents and interns at the hospital and that there had been only limited involvement by the attending physicians in whose names the services had been billed. The salaries of the residents and interns at the hospital were allowable costs under the hospital insurance portion (part A) of the Medicare program.

At GAO's suggestion the Social Security Administration (SSA) made further inquiries into the propriety of the payments made to the association and determined that there had been overpayments of \$1.1 million.

Subsequently, SSA obtained a \$300,000 refund from the association and the association agreed to refund the remaining \$800,000 over a 3-year period by offsets against future payments due it. (Report to the chairman, Senate Committee on Finance, B-164031, Sept. 3, 1969, and Feb. 11, 1970)

55. Allocation of Administrative Costs.—GAO's review showed that certain costs for data processing, executive compensation, and related costs, and other indirect costs incurred by a carrier authorized to make Medicare payments for the Social Security Administration, Department of Health, Education, and Welfare (HEW), had not been equitably allocated to the Medicare program.

The carrier agreed to revise its method of allocating costs and to reduce its allocation for 1967 by about \$135,000.

GAO recommended that the Commissioner of Social Security take appropriate action to assure that similar costs are properly allocated to the Medicare program by other carriers and intermediaries and to determine whether the agreed upon reductions in the administrative costs charged to the Medicare program were made.

GAO was advised in June 1970 that the HEW Audit Agency was reviewing the carriers' administrative costs and that the recommended cost reductions would be included in its report, which will be used as the basis

for final settlement with the carrier. (Report to the Commissioner of Social Security, Dec. 3, 1969)

56. Payments for Durable Medical Equipment.—The law provides for reimbursing Medicare beneficiaries for 80 percent of their costs of purchasing or renting durable medical equipment such as hospital beds, wheelchairs, iron lungs, etc. Reimbursements for items costing less than \$50 may be made in a lump sum; reimbursements for more expensive items are limited to periodic payments equal to the cost of renting the equipment.

GAO's review of selected claims for reimbursement showed that the rental costs for this equipment often exceeded, and in several cases more than tripled, the purchase price. Although a beneficiary has the option of renting or purchasing durable medical equipment, the Social Security Administration (SSA) could issue regulations requiring determinations of which method of procurement would be more economical. Also, a system could be implemented under which the beneficiaries would be assisted in making prudent rental or purchase decisions. SSA's regional representative indicated, however, that some changes in legislation might be needed before the regulations could be changed.

GAO suggested that SSA study the potential savings available through prudent rent-purchase determinations. Such a study would provide valuable information to support decisions regarding the need for legislative or regulatory changes. (Report to the Bureau of Health Insurance Regional Representative, June 3, 1970)

57. Minimizing Duplicate Coverage Under Medicare Program.—The Social Security Administration (SSA) is responsible for administering the Medicare program for persons who are entitled to SSA benefits, and the Railroad Retirement Board (RRB) is responsible for administering the Medicare program for railroad workers, their spouses, and RRB annuitants who are not entitled to benefits from SSA. GAO found cases, however, where persons entitled to both SSA benefits and RRB annuities had Medicare coverage at both agencies. Both agencies were collecting premiums and the possibility for duplicate Medicare benefit payments existed.

RRB officials subsequently established procedures for reconciling their records with those maintained by SSA so as to minimize duplicate coverage. Also, action was taken to refund duplicate payments of insurance

premiums. (Report to the chairman, RRB, Apr. 17, 1970)

Mortgage Assistance and Insurance Activities

58. Mortgage Loan Insurance Ceilings and Land Appraisals.—GAO raised questions for the consideration of the Congress relating to mortgage loan insurance ceilings and land appraisals for large and complex self-contained cooperative housing communities, such as represented by the Rossmoor Leisure World developments, which comprise many individual but interdependent and integral property segments. These questions stemmed primarily from the practice of the Department of Housing and Urban Development (HUD) of insuring mortgage loans for such large cooperative housing communities under legislative provisions and related administrative procedures which GAO believed were geared to provide Federal assistance for smaller, less complex projects.

Although segments of the Leisure World communities are mortgaged separately, they are closely related to each other. The statute authorizing HUD's assistance provides that the amount of an insured mortgage on any property of a private mortgagor, such as Leisure World, cannot exceed \$20 million. HUD applied the \$20 million statutory limit to each segment of a Leisure World community. As a result, HUD insured or had commitments to insure mortgages aggregating about \$270 million on five particular communities. Under the procedure used, there is no limit on the aggregate amount of mortgage loan insurance risk the Federal Government can assume on such a community. Use of this procedure may not have been envisioned by the Congress.

Also, HUD's treatment of each segment of a development as a separate project resulted in substantial increases in land appraisals and increased the land prices paid to the developer by the cooperative mortgage corporations. Legislative history indicated to GAO that the principal objective of the cooperative housing mortgage insurance program was to assist in providing housing at reduced costs to the consumers and that the program was to be administered to insure that its benefits would accrue to the consumers.

HUD and the Leisure World developer generally expressed the view that HUD's application of the mortgage limitation and HUD's land appraisal procedures

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and practices were appropriate for insured mortgage loans for such large communities. In view of the nature and magnitude of these communities and the basic intent of the cooperative housing mortgage insurance program, GAO believes the questions raised concerning the mortgage limitation and land appraisals warrant congressional attention. (Report to the Congress, B-158910, Feb. 27, 1970)

Soil Conservation

59. Effectiveness of the Soil Conservation Operations Program.—A review of the conservation operations program of the Soil Conservation Service (SCS), Department of Agriculture, disclosed that operating units in two States that generally followed the guides issued by SCS assisted more than twice the percentage of landowners or operators as were assisted in two other States where the guides were not followed. Also, there were indications that the operating units in the two States where the guides were generally followed were more effective than the operating units in most of the States not covered in the review.

The operating units provide farmers and ranchers with technical assistance in the development, application, and maintenance of conservation practices on their land. The guides are intended to assist the operating units in planning, organizing, and scheduling their work.

GAO concluded that the principal reasons SCS operating units had not generally followed the guides were that they had not been directed specifically to do so and had not been apprised sufficiently of the usefulness of the guides.

GAO proposed that the SCS Administrator (1) require all operating units to organize, plan, schedule, and manage their work in accordance with the provisions of the guides and (2) clarify the guides, where necessary, to more effectively communicate to all SCS State, area, and operating unit personnel the value and necessity of following the guides. GAO was subsequently informed that corrective action had been taken to accomplish the objectives of these proposals. (Report to the Congress, B-114833, Oct. 22, 1969)

Training Activities

60. Approval and Administration of Institutional Training Courses.—A review of institutional training

programs in California, Illinois, and Texas under the Manpower Development and Training Act of 1962 showed that Department of Labor (DOL) officials approved institutional (classroom-type) training courses in these States in certain service and semiskilled occupations without adequately determining whether such training was necessary to qualify the unemployed for the available jobs and whether other factors, such as substandard wages or working conditions, were responsible for the persistent shortage of workers in certain occupations. Certain courses were approved principally on the basis that jobs were available and persons were unemployed.

Also, the duration of many training courses did not appear to be reasonable or to be consistent with the requirements of the occupations for which training was being given. Wide ranges in course duration occurred because, in the absence of guidelines, field officials of the Department of Health, Education, and Welfare (HEW) had to rely solely on their own judgment in approving courses.

GAO was informed, in response to its recommendations, that responsible State and local officials were being constantly reminded to make the required determinations, as prescribed by the Department of Labor, before recommending institutional training projects to the Department for approval. Also, the Assistant Secretary of Labor for Administration agreed with the recommendation that DOL in cooperation with HEW expand the use of coupled training programs, under which persons trained for semiskilled or service occupations would receive basic education and prevocational training through institutional training courses and receive vocational training, when needed, through on-the-job training.

The Assistant Secretary, Comptroller, HEW, advised GAO in January 1970 that guidelines were being developed to assist local approving officials in determining the most appropriate length for training courses. (Report to the Secretary of Labor and the Secretary of HEW, B-146879, Nov. 17, 1969)

61. Administration of On-the-Job Training Contracts.—The Department of Labor (DOL) awarded two contracts, totaling about \$659,000, to a contractor for the purpose of promoting on-the-job training under the Manpower Development and Training Act of 1962 for about 822 unemployed and underemployed persons in the Chicago area.

The contractor had developed only 65 positions with subcontractors during the 8½-month period from

September 15, 1968, through May 31, 1969, and had placed only 36 persons in training during this same period. Also, about 99 percent of the \$91,000 expended during this period was for administrative costs.

GAO noted that (1) ineligible persons were enrolled in the program, (2) DOL funds were used to pay entire salaries of various contractor officials who were engaged in outside activities not connected with the program, (3) guidelines for and documentation of counseling services provided to disadvantaged trainees were needed, and (4) the contractor did not ascertain either the number of employees normally trained by the subcontractors or the subcontractors' precontract level of expenditures for training—information needed to avoid Federal payments for training costs normally borne by the subcontractors.

The Assistant Secretary for Manpower, DOL, stated in January 1970 that performance under the first contract was generally considered acceptable but agreed that performance had dropped to an unacceptable level during the second contract period. He stated that DOL had identified the significant reasons for this nonperformance and, in line with GAO's recommendations, had taken action in some cases and was assessing what additional actions should be taken to assure an effective performance level from the contract. (Report to the Assistant Secretary for Manpower, Department of Labor, Jan. 7, 1970)

Uranium Enrichment Program

62. Issues Relating to the Possible Establishment of a Government Uranium Enrichment Enterprise.—At the request of the Joint Committee on Atomic Energy, GAO examined important issues to be resolved in the possible establishment of a Government uranium enrichment enterprise. Such an enterprise would assume future responsibility for operation of the Atomic Energy Commission's (AEC) three gaseous diffusion plants.

The review was directed at what, in GAO's opinion, were the most important areas involved in transferring AEC's uranium enrichment functions to a Government enterprise:

- Functions, facilities, and materials related to uranium enrichment.
- Organization and management of enrichment activities.
- Capitalization and financing.

GAO identified and discussed a number of alternatives to the present AEC ownership of the uranium enrichment function, ranging from AEC ownership with authority to borrow funds to a mixed Government-industry corporation, together with some advantages and disadvantages of each alternative. Five alternative cases were considered:

Continued operation of the plants by a subdivision of AEC which would have self-financing authority. This would involve the least amount of change from the present organization and should be the most economical.

Establishment of a corporation within AEC to operate the plants. This would be the next simplest and most direct approach.

A wholly owned Government corporation with limited AEC participation in its management. This would provide opportunity for some coordination between the corporation's and AEC's policies and programs and permit greater independence and flexibility in operations than in the two cases above.

A wholly owned Government corporation independent of AEC. This would further remove the enterprise from AEC influence and should provide for operation in a manner more like that of a business enterprise.

An independent Government corporation with partial private ownership. If ownership is to be transferred gradually and in the near future to a single private corporation, private ownership in the initial corporate structure could give private investors a voice in the enrichment enterprise at an earlier time and establish the basic classes of stock which would eventually make up the capital structure of the corporation.

The report also contained a summary of the various statutes involving Government corporations and discussed the major provisions to be considered in enacting legislation for a uranium enrichment corporation. (Report to the chairman, Joint Committee on Atomic Energy, B-159687, Oct. 17, 1969)

Veterans Benefits

63. Policy Loan Interest Rates.—The Veterans Administration (VA) administers five Government life insurance programs for veterans. Loans are available to those who hold permanent plan policies.

The law requires that the interest rate established by the Administrator of Veterans Affairs for policy

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loans be reasonable and practicable. However, it does not specify criteria for determining reasonable and practicable interest rates. The rate has been 4 percent since 1946. Under one of the programs—the United States Government Life Insurance program—VA, by law, cannot charge more than 5-percent interest.

GAO believes that the 4-percent rate is not reasonable because of the recent and substantial increases in market interest rates and in interest rates on investments of the insurance funds and the higher interest rates on loans on commercial insurance policies. The rate on new policy loans should approximate the rate earned on new investments of the insurance funds.

If, during calendar year 1968, VA had charged 5 percent, 6 percent, or 7 percent instead of 4 percent, the earnings distributable to policyholders would have been increased somewhere between \$500,000 and \$4 million, depending on the rate charged and the number of new loans made.

In view of the reluctance of VA to adjust the interest rate, GAO suggested that the Congress might wish to consider legislation that would (1) provide the Administrator of Veterans Affairs with specific criteria for the adjustment of the interest rate on policy loans, and (2) remove the 5-percent statutory limitation applicable to the United States Government Life Insurance program. (Report to the Congress, B-114859, May 28, 1970)

Water Pollution Control

64. Effectiveness of the Construction Grant Program in Water Pollution Control.—During fiscal years 1957 through 1969, the Federal Water Quality Administration (FWQA) (formerly the Federal Water Pollution Control Administration) awarded grants of about \$1.2 billion to States, municipalities, and intergovernmental agencies for construction of more than 9,400 waste treatment projects having a total estimated cost of about \$5.4 billion.

GAO reported that the benefits of this construction have not been as great as they could have been because many of these projects have been built on waterways into which other major polluters—industrial or municipal—located nearby continue to discharge untreated or inadequately treated wastes.

The program has been administered for the most part using a “shotgun” approach—awarding grants on a first-come-first-served or readiness-to-proceed basis with little consideration being given to the bene-

fits to be attained by the construction of individual waste treatment plants.

In view of the magnitude of the water pollution problem and the limited Federal funds available, GAO believed that grants should be awarded on a more systematic basis and that FWQA should give consideration to achieving interim goals, that is, providing less than secondary treatment when such treatment will result in enhancing water quality or in attaining the States’ water quality standards.

GAO recommended that the Secretary of the Interior require that the States, in establishing priorities for the construction of waste treatment facilities, and FWQA, in approving grants for such construction, give consideration to (1) the benefits to be derived from the construction of the facilities and (2) the actions taken, or planned to be taken, by other polluters of the waterways.

It also recommended that FWQA consider utilizing systems analysis techniques in the planning for and implementing of water pollution control programs and consider the practicality of providing, through its computer system, data needed by the States in establishing priorities for the construction of waste treatment facilities.

The Department of the Interior agreed that a more systematic means of awarding construction grants must be found, and on July 2, 1970, the Secretary of the Interior issued regulations which require that, to be eligible for Federal aid, a new project must fit in with comprehensive river basin-wide programs for pollution abatement as well as with metropolitan and regional plans.

The Department took the position, however, that providing less than secondary treatment of wastes would not be acceptable and that interim goals should not be established. GAO recommended, therefore, that the Congress consider requiring the Department to provide for interim goals and to allow communities to construct less than secondary treatment facilities when it can be demonstrated that a lesser degree of treatment will result in water quality enhancement commensurate with proposed present and future water uses.

In addition, since the Federal Water Pollution Control Act provides that priority for construction grants be given on the basis of financial as well as water pollution control needs—which could result in the award of grants that provide little benefit in terms of appreciably improving water quality or uses—GAO suggested that the Congress might wish to consider amending existing legislation to provide that priorities

be established on the basis of benefits to be realized. (Report to the Congress, B-166506, Nov. 3, 1969)

65. Grants Awarded for Constructing Waste Treatment Facilities Which Benefit Industrial Users.—A large amount of Federal grant funds have been awarded by the Federal Water Quality Administration (FWQA) (formerly the Federal Water Pollution Control Administration) to municipalities for the construction of facilities to treat significant quantities of industrial wastes. GAO identified seven grants totaling about \$503,000 which had been awarded for the construction of facilities to treat industrial wastes only. Also, a partial list of projects in which industrial wastes represented 50 percent or more of the total volume of wastes treated showed Federal grants of about \$81 million for 381 facilities estimated to cost about \$360 million.

FWQA has not required industrial plants to finance any part of the cost of constructing waste treatment facilities and, if the trend toward municipal treatment of industrial wastes continues, a heavy demand on Federal construction grant funds could occur in the future.

Although the Congress is aware that grants are awarded for construction of facilities to treat both domestic and industrial wastes, it is questionable whether the Congress intended that grants be awarded for the treatment of industrial wastes only. GAO therefore suggested that the Congress might wish to:

Clarify its intent as to whether Federal grants are to be awarded to municipalities for the construction of facilities for the treatment of industrial waste only.

Consider other alternatives for financing the construction of joint municipal-industrial facilities.

In addition, GAO suggested that the Congress might wish to consider the information in the report in view of proposed water pollution legislation in 1970 regarding the financing of municipal waste treatment facilities and the problem of financing industrial pollution control.

The Department of the Interior concurred in the need to examine existing policies and to develop new policies where appropriate. On July 2, 1970, the Secretary of the Interior issued regulations which provide that a Federal grant may be made for a waste treatment project designed to treat industrial wastes if the project provides for integrated, but not necessarily connected, waste disposal for a community, metropolitan area, or region. The regulations provide also that, if industrial wastes are to be treated in a joint municipal-industrial system, industry would have to pretreat

those wastes which would otherwise be detrimental to the system and an equitable system of cost recovery would be required.

While the full import of the regulations is not clear, they do not fully cover the matters GAO suggested for consideration by the Congress. (Report to the Congress, B-166506, May 8, 1970)

Water Resources Development Program

66. Allocating Costs of Water Resources Projects.—The procedures being used by the Corps of Engineers (Civil Functions), Department of the Army, in allocating the costs of multiple-purpose water resources projects to the various project purposes were not appropriate. Use of these procedures for the 20 Federal projects included in GAO's review resulted in an underallocation to power of as much as \$134 million, exclusive of related interest costs, and an overallocation of about \$16 million to other project purposes, such as water supply, irrigation, flood control, and recreation. The costs allocated to power, water supply, and irrigation are reimbursable to the Federal Government while costs allocated to purposes such as flood control and recreation are not reimbursable. The Corps' procedures also resulted in increased Federal participation of about \$5 million in two partnership projects with States or other governmental units.

In allocating costs, the Corps must determine the cost of an alternative single-purpose project for each project purpose. The Corps uses the estimated cost of a federally financed steam plant as the alternative source of power for determining the amount of project costs to be allocated to power although the Congress has not authorized the construction of federally financed steam plants outside the area served by the Tennessee Valley Authority. This procedure results in a lower allocation of project costs to power than would be the case if the costs were allocated on the basis of an appropriate alternative source.

Costs of multiple-purpose water resources projects should be allocated on the basis of the alternative source of power that is most likely to be developed in the absence of the multiple-purpose project. Unless the Corps' procedures are revised, the Federal Government will not recover the underallocated costs or the related interest costs.

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GAO recommended that the Secretaries of the Army and the Interior apply more appropriate procedures to all current and future projects where cost allocations have not yet become final, pending establishment of uniform cost allocation standards by the Water Resources Council. The Departments generally disagreed with this position. The Department of the Interior agreed, however, that the subject was worthy of further analysis and endorsed GAO's recommendation that the Water Resources Council establish uniform policies, standards, and procedures for cost allocations. (Report to the Congress, B-168798, May 25, 1970)

67. Relocating Railroad Facilities at Water Resources Projects.—In replacing railroad facilities necessitated by the construction of three Federal water resources projects, the Corps of Engineers (Civil Functions), Department of the Army, provided the railroads with some replacement facilities which were better than those needed to meet the Government's obligation to provide facilities equivalent to the ones replaced, resulting in increased costs to the Government of about \$3.9 million. Also, for two of these projects, the Corps did not consider adequately the need for participation in the cost of service roads which were planned but not constructed by the railroad at the time of the relocation negotiations. As a result, the Government ultimately incurred the entire cost of constructing the service roads on the relocated lines.

The Department of the Army agreed that there was a need for guidance related to the relocation of existing facilities and issued guidelines requiring that (1) full documentation be maintained for all items of cost considered during preparation of cost estimates and in negotiations for relocations, (2) before selecting a negotiating position, the District Engineer obtain and evaluate documented evidence from the railroads supporting their contention that any new features or betterments requested are necessitated solely as a result of the relocation, and (3) proposals for negotiating settlements with the railroads be submitted to the Office of the Chief of Engineers for approval.

With respect to Federal participation in the cost of facilities planned but not constructed, GAO recommended, despite disagreement by the Department, that guidelines be issued requiring that Federal participation (1) be based upon documented evidence that planned improvements on the railroad lines would be adversely affected by their relocation and (2) be limited to the extent that the cost of the planned

improvements is increased by the relocations. GAO recommended also that the Corps obtain congressional consent whenever it believes that the best interest of the Government can be served by participating in the increased cost of planned railroad improvements brought about by a relocation. (Report to the Congress, B-114885, June 12, 1970)

68. Preparation of Recommended Cost Allocations for Water Resources Projects.—The cost allocation, prepared by the Corps of Engineers (Civil Functions), Department of the Army, and included in the appendix of a report submitted to the Congress for its information in considering a proposed authorization for additional work on one water resources project, supported cost-sharing percentages of about 77 percent for the Federal Government and 23 percent for the local participants. In the body of the report, however, the Corps recommended that the Congress approve a cost-sharing percentage of 80 percent as the Federal Government's share. Use of the latter percentage, which would increase the Federal Government's share of the cost by about \$2.7 million, was based on the percentages used in a prior authorization.

The cost allocation for another project contained errors, was not reviewed for accuracy, and used data that was not current, resulting in increased Federal participation of about \$440,000.

These matters demonstrated a need for (1) adequate disclosure to the Congress when the project cost-sharing arrangements recommended to the Congress differ materially from the cost allocation computed by the Corps and (2) improved review of the data and of the calculations used in preparing cost allocations.

The Department of the Army agreed that there was a need to improve, at the field level, the review of data and calculations used in preparing cost allocations and requested the Corps to develop improved procedures for reviewing the allocations. (Report to the Secretary of the Army, B-167941, Dec. 10, 1969)

69. Interest Rates Used in Computing Cost of Financing Federal Power Systems.—The criteria used in determining the cost of financing the Federal power systems of the Department of the Interior and the Corps of Engineers—costs that are repayable from revenues obtained from the sale of power—result in the use of interest rates that are not representative of the cost of funds borrowed by the Treasury during the period of construction. Consequently, the Govern-

ment's cost of financing these systems has been significantly understated.

As an example of the understatement of financing costs, the interest rates used in the Federal Columbia River Power System, although established in accordance with long accepted criteria, have resulted in understating (1) by about \$22 million the capitalized interest costs during construction for those major projects still under construction in fiscal year 1968 and (2) by about \$2 million the interest expense for fiscal year 1968 on the unrepaid Federal investment related to the transmission facilities of the Bonneville Power Administration.

In response to GAO's draft report, the Treasury Department indicated agreement with GAO's position regarding the interest rate criteria. The Department of the Army stated that the Corps of Engineers, in the future, would use a new interest rate formula to calculate power costs. The Department of the Interior, on October 27, 1969, announced that new Federal power projects would be charged with an interest rate which better reflects the cost of money to the Government.

Although the changes by the Department and the Corps are significant improvements, GAO believes that neither will result in a realistic measure of the cost to the Treasury of borrowing money during the period of construction of power projects.

Because the interest rates used have not been representative of the financing costs, GAO suggested that the Congress might wish to consider changing the interest rate criteria to provide that:

The interest costs to be capitalized as part of the Government's investment in power projects be based on an interest rate prescribed by the Secretary of the Treasury taking into consideration the average market yield, during the year in which the investment is made, on the outstanding marketable obligations which he considers to be most representative of the cost to the Treasury of borrowing money to construct the power projects.

The interest to be paid to the Treasury annually on the Government's unrepaid investment in power projects be based on a composite of the average market yields used in computing the capitalized interest costs.

(Report to the Congress, B-167712, Jan. 13, 1970)

70. Possible Prevention of Accomplishment of a Purpose of a Water Resources Project.—The Bureau of Reclamation, Department of the Interior, amended

its contract with the Westlands Water District, the largest user of water provided by the San Luis Unit, a major addition to the Central Valley project, California, to include provisions which, if fully implemented, could prevent the Unit from accomplishing one of its important purposes as set forth in the Department's feasibility report to the Congress, i.e., to replenish the ground water and to stabilize the level of the ground water in the area.

The contract was amended to prevent ineligible landowners (owners of more than 160 acres of irrigable land) from indirectly benefiting from the water provided by the Unit. Ineligible landowners could benefit from a rise in the water table caused by nonuse of ground water by eligible landowners and by percolation into the ground water of water used by eligible landowners, thus resulting in a reduction of the ineligible landowners' costs of using ground water. To prevent these benefits, the contract was amended to provide that Westlands, when directed by the Bureau, pump the ground water resulting from percolation; i.e., use ground water rather than purchase water. This could result in the Bureau's paying Westlands about \$2 million and in the Unit's losing revenues of about \$4 million.

The Department stated that it did not share GAO's concern over the financial impact of the amendment, since it believed that Westlands would not be required to pump ground water. GAO suggested, nevertheless, that the Congress might wish to provide guidance to the Bureau as to which purpose is of primary importance—replenishing and stabilizing the ground water supply or preventing ineligible landowners from receiving benefits from project water.

If it is determined that replenishing and stabilizing the ground water supply should be given primary consideration, the Congress might wish to consider the applicability to the San Luis service area of the provisions of several bills introduced in the 91st Congress which, if enacted into law, could have the effect of lessening the need to pump ground water. (Report to the Congress, B-125045, Feb. 12, 1970)

71. Allocating Costs of Water Resources Projects.—The Bureau of Reclamation, Department of the Interior, advised the State of California that it would allocate costs to nonreimbursable flood control purposes in all cases where flood control benefits resulted from the San Luis Unit, a major addition to the Central Valley project, California, even in those cases where such benefits were incidental and no extra cost

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was incurred for flood protection. The Bureau estimated that \$5 million could have been allocated to flood control. Since the State paid for 55 percent of the construction costs of the facilities, the Government would have had to refund \$2,750,000 to the State. Also, the remaining costs of \$2,250,000 would not be recovered by the Bureau through charges to water users.

It appeared to GAO that the Congress did not intend for facilities of the San Luis Unit to be constructed on a nonreimbursable basis since no authority was contained in the San Luis Act for nonreimbursable flood control allocations. In accordance with GAO's proposal, the Bureau corrected the cost allocations. This action resulted in savings of about \$5 million to the Government. (Report to the Congress, B-125045, Feb. 12, 1970)

72. Charges for Municipal and Industrial Water.—It has been the policy of the Bureau of Reclamation, Department of the Interior, to establish rates for the sale of water to municipal and industrial users from its irrigation, flood control, and other water resources projects that will produce revenues sufficient to repay all annual operation, maintenance, and replacement costs and the Federal investment, plus interest, within a 50-year period. However, the municipal and industrial water rates have been established in long term water service contracts on the basis of estimated costs prior to the completion of the projects

without provision for adjusting the rates if such estimates later prove to be erroneous.

The Bureau's records relating to the Central Valley project in California showed that the actual costs incurred to provide water for municipal and industrial purposes had greatly exceeded the estimated costs upon which the municipal and industrial water rates were based. Consequently, the Federal investment in the project is not being recovered as originally anticipated and, because the water rates cannot be increased until the expiration of the long term contracts, there is no assurance that the costs will be recovered within the 50-year period.

Failure to promptly recover the Federal investment increases the Treasury's need to borrow money and results in greater interest cost to the Government than would be incurred if the investment were recovered as anticipated. This problem is compounded by the difference between the rate of interest the Government currently must pay to borrow funds and the rate of interest it receives on the unrepaid municipal and industrial investment.

GAO recommended that the Secretary of the Interior establish specific procedures requiring that provisions be included, in all future long term Bureau water service contracts, for adjusting water rates which are found to be inadequate to recover all costs allocated to municipal and industrial purposes. (Report to the Secretary of the Interior, B-125045, May 8, 1970)

COMBAT READINESS

Naval Forces

72a. Readiness of the Fleets in the Atlantic and the Mediterranean.—GAO found that supply, personnel, and equipment problems were preventing the fleets in the Atlantic (Atlantic Fleet) and the Mediterranean (Sixth Fleet) from achieving and maintaining a desired state of readiness. The fleets' own evaluations had concluded that, under the existing conditions, the fleets were capable of handling a contingency but were only marginally capable of maintaining a high level of sustained wartime operations. Many of the problems were due to factors beyond the direct control of the Navy, such as funding restrictions, the use of available resources in Southeast Asia, and the age of the ships. However, there were other significant problems directly related to the need for more effective management of the resources available to the Navy. These problems included :

- The lack of timely support from ashore.
- Inadequate supply management aboard ships.
- The lack of sufficient qualified personnel.

Improvement was also needed in the criteria used for measuring and reporting combat readiness. The criteria did not permit uniform application of readiness standards throughout the two fleets and did not

result, therefore, in comparable readiness evaluations of the capabilities of similar units. There was also a need for greater surveillance of the readiness reporting system to insure that the reports to higher authorities reasonably reflected existing conditions.

GAO recommended that the Secretary of Defense follow the measures being taken by the Navy to improve readiness through more effective management of existing resources and also suggested that the Congress might wish the Department of Defense to re-examine the status of the current force structure of the fleets. GAO offered the following alternatives for consideration.

Reduction of naval units in the Atlantic and Sixth Fleets to a level that could be effectively supported with available resources.

Allocation of additional resources to upgrade the combat readiness status of the Atlantic and Sixth Fleets.

Maintenance of the status quo and assumption of the risk of reduced operational capability in the event that action by these forces is required.

The Navy's comments on these alternatives are classified. (Unclassified findings in a "Secret" report to the Congress, B-146964, June 30, 1970)

INTERNATIONAL ACTIVITIES

Foreign Assistance Programs

73. Administration of Foreign Assistance to Laos.—The primary objective of the United States in Laos is the protection of that nation's independence and neutrality within the framework of the 1962 Geneva agreements. Security and political stability are the prime factors determining the design of the U.S. economic programs in Laos.

During the period from fiscal year 1964 through fiscal year 1968, total economic assistance to Laos amounted to about \$267 million.

Since 1964, the economic stabilization programs, necessitated by the large Royal Laotian Government military expenditures, have been successful in maintaining a stable Lao currency. This tends to promote political and economic stability.

GAO reported that the Foreign Exchange Operations Fund, currently the largest of the stabilization programs, does not provide for controls and restrictions on foreign exchange contributed to the Fund. It is practically impossible to detect the extent to which foreign exchange is used in gold trade, capital flight, or other purposes which may not be in the best interest of the United States.

The reported problems have been studied at length by the Agency for International Development and the International Monetary Fund, and other U.S. agencies. No acceptable solution has been found. GAO made several proposals regarding the stabilization programs designed to:

- Help reduce the overall level of support required from the United States.

- Minimize the adverse balance-of-payments effects of present programs.

- Insure more effective use of foreign exchange made available to Laos.

Agency officials agreed, in general, with GAO's findings and have taken or are taking a number of corrective actions. AID stated that it will continue to study the problems related to the Foreign Exchange Operations Fund and that it was negotiating a system for reporting the general purposes for which foreign

exchange sold by commercial banks is used. (Report to the Congress, B-133003, Aug. 28, 1969)

74. U.S. Assistance Programs in Tunisia.—This review concerned U.S. assistance as it has affected Tunisia's economic growth, industrial development, agricultural expansion, and improvement in the standard of living of its people. This assistance was provided chiefly by the Agency for International Development (AID).

Assistance to Tunisia from sources abroad since 1957, when it was proclaimed a republic, through fiscal year 1968 amounted to over \$1.1 billion. Of this amount the United States provided \$617.4 million, or 57 percent. The average annual assistance to Tunisia during 1966 and 1967 from U.S. sources was equal to 17 percent of Tunisia's total governmental resources and 26 percent of Tunisia's total export earnings, a relatively significant portion.

U.S. authorities have considered the overall U.S. assistance program in Tunisia to have been successful in meeting its objective of assisting in the development of a viable economy, enabling Tunisia on the one hand to become an economically progressive Arab-African nation and on the other hand to maintain a moderate and stable government and policy.

Progress has undoubtedly been made in achieving the main purposes of the U.S. economic aid, such as:

- Increasing Tunisia's foreign exchange earnings.

- Providing commodity imports needed for economic development.

- Inducing Tunisia to do more for itself and to work closely with other free-world countries,

GAO was unable to assess, in precise degree, the extent that U.S. assistance contributed to this progress. For the most part, the U.S.-financed programs and projects GAO reviewed were planned and administered in accordance with the stated program objectives.

GAO believes that additional progress can be attained if AID is more selective in choosing projects to be supported with counterpart funds and watches more closely the receipt and use made of AID-financed commodities.

The following problems have arisen with several AID-financed projects :

Construction of an airport terminal was planned without, GAO believes, adequate consideration being given to the economic soundness of the project.

A pulp mill incurred losses of about \$5.4 million through 1965 and became insolvent; there is relatively little reason to expect that it can become financially sound.

An irrigation dam and related facilities were under construction although it was known that considerable underground water was obtainable by drilling *less costly* wells.

U.S. requirements were relaxed under a Public Law 480 agreement which adversely affected the U.S. balance-of-payment position.

Action has been taken by AID on a number of matters which GAO believes will strength the programs. This is particularly true in the areas relative to selection, receipt, and use of commodities imported under AID loans and to the U.S. balance-of-payments position. (Report to the Congress, B-166713, Sept. 10, 1969)

75. Observations on U.S. Assistance to Guatemala.—Assistance to Guatemala from all sources as of June 30, 1968, totaled over \$384 million; of that amount, \$288 million originated with the United States. Assistance during the period of the Alliance for Progress (1961–68) amounted to \$175.6 million of which \$130.4 was provided by the United States.

A review was made by GAO to consider the effectiveness of U.S. assistance directed toward the significant underlying social, economic, and political problems of Guatemala and the adequacy of coordination between various U.S. agencies and international organizations.

GAO's report showed that Guatemala's self-help performance had been limited, considering the magnitude of the country's problems. Basic constraints upon self-help performance have been political instability and the resistance to fundamental economic and social reforms. Little basis was found for expecting significantly improved development progress in the near future.

Even though the assistance, which has been provided mainly on a project basis, has in most cases been successful, Guatemala's basic economic and social problems remain. Although total assistance to Guatemala from all donors amounted to \$175.6 million be-

tween 1961 and 1968—GAO found no unified effort among assistance donors to impress upon the Guatemalan Government the need for initiating meaningful self-help measures or to use the leverage inherent in their combined assistance toward this end.

GAO recommended that a coordinating group be established consisting of the principal donors of assistance to Guatemala—with perhaps the Inter-American Committee on the Alliance for Progress being invited to preside over the group. GAO also recommended that the Secretary of State take the leadership role in attempting to establish an appropriate coordinating group.

The Agency for International Development (AID) endorsed the recommendation. Despite the difficulties inherent in coordinating AID's work with that of several international agencies, progress has been made. AID informed GAO that the Inter-American Committee on the Alliance for Progress has been improving its role as a coordinating group over the last 4 years and has given indications of becoming more effective in the future. (Report to the Congress, B-167675, Feb. 9, 1970)

76. Foreign Aid Provided Through the Operations of the United States Sugar Act and the International Coffee Agreement.—Commodity trade assistance—a form of foreign aid linked to imports of specific commodities—is provided by the United States to less developed countries primarily through the operations of the United States Sugar Act and the International Coffee Agreement. Sugar is imported at prices generally above world market levels, and coffee is imported at prices above those likely to have prevailed in the absence of the International Coffee Agreement.

GAO estimated that U.S. sugar assistance averaged between \$290 and \$342 million a year during 1965–67. Inclusion of sugar assistance increased reported total U.S. foreign economic aid by 7 to 9 percent during that period. Sugar assistance is given to 31 countries: in 1967 Latin America accounted for 63 percent and the Near East, Asia, and Oceania (principally the Philippines) accounted for 34 percent of the total.

No explicit attention was paid to the use that recipient countries made of sugar assistance despite its large magnitude. Only to the extent that sugar aid decreased traditional aid requirements was sugar aid taken into account by the Agency for International Development (AID) and the Department of State.

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GAO also estimated that total (United States and other coffee-importing countries) coffee assistance averaged \$601 million a year and U.S. coffee aid averaged \$314 million during 1964–67 under the 1962 International Coffee Agreement. Inclusion of coffee assistance increased reported foreign economic aid disbursements of the United States and other major foreign aid donors by 8 percent a year (for both the major aid donors as a group and the United States alone). Taking into account both sugar and coffee assistance would have increased reported U.S. economic assistance by about 16 percent for 1965–67.

Under the 1962 International Coffee Agreement, no explicit attention was paid by the United States and other signatory countries to the use made of coffee assistance. As with sugar assistance, the availability of coffee assistance lessened the need for traditional assistance.

Under the 1968 International Coffee Agreement, a diversification fund was established to help coffee-exporting countries to diversify their exports. However, only a small fraction of coffee aid will be used to finance the fund.

In the case of sugar assistance, GAO recommended that the Agency for International Development and the Department of State, in concert with the U.S. Department of Agriculture (USDA) prepare annual estimates of the amount of such aid received by each less developed country and comprehensive plans for utilizing the aid for development purposes in each recipient country. The estimates and plans would serve as a basis for reviewing and negotiating with recipient less developed countries on the uses which they would make of such aid.

In the case of coffee assistance, GAO recommended that the United States seek to convince the governments of other importing countries to cooperate with the U.S. Government in an attempt to increase, as early as practicable, the tax on coffee exports, which would finance the diversification fund to the maximum level permissible under the present agreement.

Both AID and USDA agreed that foreign aid is transmitted through the operations of the United States Sugar Act and the International Coffee Agreement. AID also stated that sugar and coffee earnings were usually taxed by recipient countries and some portions of the revenues were used for development. However, both agencies disagreed with GAO's recommendation on sugar assistance. AID believed that a gradual approach was necessary for improving the programming

of coffee assistance, while USDA believed that nothing more can be done because of the opposition of coffee-exporting countries.

GAO believes that the cognizant agencies have not taken advantage of the flexibility permissible under the present Sugar Act to review and negotiate with recipient less developed countries development-oriented applications of sugar assistance.

GAO suggested that the Congress might wish to consider whether the foreign aid element should be an explicit objective of the underlying legislation and treaty for commodity trade assistance. (Report to the Congress, B-167416, Oct. 23, 1969)

Participation in International Organizations

77. Administration of U.S. Financial Participation in the United Nations Children's Fund (UNICEF).—GAO reported in July 1969 that procedures employed by U.S. officials for analyzing proposed UNICEF projects had to be abandoned in 1968 because the UNICEF Secretariat, over the objections of the Department of State, discontinued the previous arrangements for providing the United States with the information on which the analyses were made. Proposed alternative arrangements which would allow U.S. officials to make future analyses were uncertain.

Although a body of knowledge regarding the general content and direction of programs could be acquired from an analysis of documentation made available by the UNICEF Secretariat it was not sufficient to permit reliable assessments of actual projects.

The United States and the United Nations had recognized the need for and had initiated some independent evaluations of projects. The evaluations, however, were insufficient in scope and coverage for officials to make informed independent judgments relative to the efficiency and effectiveness of operations or to provide a basis for encouraging action by the UNICEF Secretariat to resolve indicated problems.

GAO recommended that the Department of State:

Obtain necessary information on and make analyses of proposed UNICEF projects so that it could make more informed judgments relative to continued support of UNICEF activities.

Elicit from the UNICEF Secretariat more complete and meaningful operational data.

Work out an arrangement for U.S. overseas posts to make selective periodic evaluations of UNICEF

projects until the means for internationally constituted evaluations are developed.

The Department of State reported that it was arranging with the UNICEF Secretariat to provide more complete operational data. The intentions were still at an obscure stage, leaving the decisions as to the nature, scope, and form of information to be furnished up to the Secretariat. In GAO's opinion, the Department should assure that the information furnished is adequate for it to make assessments on the implementation of UNICEF projects.

The Department also advised that it had performed evaluations in connection with its annual reviews of proposed projects. Since the UNICEF Secretariat in 1968 discontinued furnishing the information from which these reviews were being made, opportunity for evaluation was dependent on the United States' making future arrangements with the Secretariat. On July 18, 1969, the Department indicated that it was in the process of negotiating with UNICEF to obtain information which will enable it to continue a critical evaluation of UNICEF projects. (Report to the Congress, B-166780, July 8, 1969)

78. Management Improvements Needed in U.S. Financial Participation in the United Nations Development Program.—GAO reported in March 1970 that year after year the Department of State had requested the Congress to appropriate increasing funds for U.S. contributions to the United Nations Development Program without having been in a position to give the Congress basic assurance that the funds were being used satisfactorily to accomplish intended objectives. The United States had contributed more than \$550 million over the past 10 years to this United Nations organization, which was established to assist in the technical, economic, and social development of less developed countries with funds contributed voluntarily by member governments.

Although the Department of State has the overall responsibility for managing U.S. participation in international organizations, it had not developed and promulgated U.S. policy objectives and priorities relative to U.S. support of the Development Program. Moreover, the Department had not prevailed successfully upon the Program's Secretariat to provide assistance to *only* the less developed countries and to the priority needs of those countries. Consequently, from 1965 through 1969, \$100 million of assistance was granted to countries which were either relatively developed or

seemingly in a position to pay for such assistance. Also projects were often reported to be of low priority and widely scattered, which dissipated the impact that could be gained from an intensification of efforts in more concentrated areas.

For some time, there had been considerable evidence that some of the United Nations agencies no longer had the capacity to administer effectively the ever-increasing number of Development Program projects assigned to them. A study, undertaken by the Program's Secretariat at the initiative of the United States and completed in November 1969, reported two broad conclusions:

First, the capacity of the United Nations system to handle development projects was overextended.

Second, unless substantial reforms (recommended in the study) were undertaken, the capacity of the system to effectively absorb projects would be limited to a level of about \$200 million to \$250 million annually.

Even this amount, according to the study, was more than the system could handle effectively. The Program received firm pledges and estimates for members' contributions for 1970 totaling \$238 million.

The State Department had not obtained sufficiently descriptive information nor established machinery to make useful appraisals of proposed projects or to provide adequate assurance that approved projects are effectively carried out.

Both the United States and the United Nations had recognized the need for detached evaluations of the activities of United Nations-affiliated organizations. Both had taken some specific steps to meet this need. Although some progress was being made, GAO found the evaluations were not sufficient to be of much assistance in ascertaining what the actual accomplishments of the United Nations Development Program had been or in making independent judgments relative to the efficiency and effectiveness with which its projects were being carried out.

GAO recommended that the Secretary of State:

Develop and promulgate policy objectives and priorities relative to U.S. support of the United Nations Development Program on a basis consistent with the Program's purpose of providing assistance to the priority needs of less developed countries.

Emphasize that future U.S. contributions will have to be justified by a demonstration that projects are responsive to the priority needs of the less developed

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countries and can be carried out efficiently, effectively, and promptly.

Instruct U.S. diplomatic missions to enlist the support of other governments in expediting the needed improvements in the United Nations development system.

Improve the effectiveness of U.S. appraisals of proposed and continuing projects.

Encourage the establishment of a single United Nations-wide review body of appropriate size and competence to meet the need for effective, independent evaluations of United Nations activities. Until an effective internationally constituted means of evaluation is developed, the Secretary of State should arrange to improve the quality of U.S. evaluations by its overseas posts.

The Department of State said that implementation of many of GAO's recommendations exceeded the Department's capacity in terms of available staffing. It said that, within these limitations, it had reviewed the accomplishments of the United Nations Development Program as best it could and had attempted to monitor Program operations to gain the necessary assurances that funds contributed were used effectively.

The Department agreed that the United States should have policy objectives and priorities underlying its support to the United Nations Development Program and stated that it had been striving since 1961 for the establishment of a centralized voluntary fund in the United Nations to provide technical assistance. The Department stated also that it intended to give careful attention to the recommendations made in the November 1969 study referred to above so that those which would serve to further U.S. long term goals might be quickly implemented.

The Department said that the success of the United Nations Development Program may be measured by the continuing increase of requests for assistance from the recipient countries and that these countries are not likely to use their own resources to support projects if the projects are not successful. The Department also said that developed countries are not likely to increase their contributions unless they are satisfied with the Program's operations. In GAO's opinion, the State Department is not in a position to make firm assessments relative to the Development Program's performance. (Report to the Congress, E-168767, Mar. 18, 1970)

79. Administration of U.S. Financial Participation in the Food and Agriculture Organization of

the United Nations.—GAO reported in November 1969 that the Departments of State and Agriculture had not obtained the information nor developed the procedures needed to make adequate analyses of the activities of the Food and Agriculture Organization of the United Nations and that the U.S. Government had no firm basis for making informed judgments, except in very broad terms, as to just what the Organization was doing or planned to do with the contributions it received.

Although some attempts had been made to evaluate the Organization's performance, the evaluations had not provided a basis for assessing the manner in which programs were carried out. At the same time, there was a great deal of evidence that the organization, structure, and operating methods of the organization were not geared to the scope and character of the programs being carried out and that this had hampered effective and efficient administration of the programs.

Superimposed and perhaps overshadowing these more immediate problems was the fact that the State and Agriculture Departments, after several unsuccessful attempts, had not developed long range U.S. policy objectives and program priorities to guide participation in the Food and Agriculture Organization, although this is their responsibility. It was therefore difficult, if not impossible, to determine the extent to which the Organization's activities were consistent with U.S. interests.

GAO recommended that the Department of State with the assistance of the Department of Agriculture (1) obtain the information and develop the procedures necessary for making adequate analyses of the activities of the Food and Agriculture Organization, (2) evaluate program performance until the means for internationally constituted evaluations are developed, and (3) establish long range policy objectives and program priorities relative to U.S. support of the Organization.

The State Department agreed that these recommendations should be implemented. Both the State and Agriculture Departments stated, however, that the recommendation for the establishment of long range policy objectives should not be implemented at this time. They advised that it would be a mistake to undertake such a study in the absence of a U.S. policy on the question of whether or not the United States plans to expand multilateral vs. bilateral aid and because of the lack of knowledge as to the planned future level of support of the Organization by other major donors.

In GAO's opinion, the Departments of State and Agriculture must take the initiative in formulating long range policy objectives and postulating an appropriate level of U.S. support for the Food and Agriculture Organization. For these Departments to defer on this matter is to raise a question as to whether they are discharging their responsibility for insuring that the interests of the United States are met in connection with U.S. participation in the Organization. (Report to the Congress, B-167598, Nov. 17, 1969)

80. Obtaining NATO Cost Sharing on Military Construction Projects in Europe.—The United States, as a NATO member, has incurred in excess of \$1 billion for its participation in the infrastructure program (a program designed to provide certain fixed defense installations and facilities the costs of which are shared by the member nations).

Improvements have been made in the administration of U.S. participation in the program since GAO's last report on infrastructure activities was issued to the Congress in June 1965 (B-156489). However, there was a need for further improvements especially in the area of recouping costs of projects initially financed by the United States. GAO reviewed 76 such projects, valued at over \$9 million and found that there were delays both in submission of Air Force projects for cost sharing and in subsequently recouping costs of initially financed projects after inclusion in the NATO program.

GAO also found that the U.S. Army in Europe, purportedly to maintain operational control of some facilities, had followed a policy of not pursuing NATO cost sharing for certain facilities eligible under the program.

GAO proposed that the Secretary of Defense reconsider the proposals set forth in the 1965 report concerning the establishment of a single office within the Department of Defense to be responsible for uniform infrastructure policies and practices and for coordination of these activities. Additionally, GAO specifically proposed actions designed to indoctrinate responsible personnel in infrastructure procedures, to clarify areas of responsibility, and to give more specific guidance for recoupments. It was also proposed that a review be made of the policy of not seeking recoupment for certain facilities apparently eligible for cost sharing. The Department of Defense accepted these proposals, in general, and appropriate responsive action was initiated.

GAO recommended that additional consideration be given to assigning some central authority within DOD definite responsibility for enforcing and monitoring the policies and procedures adopted by DOD. The Department advised that it was undertaking a feasibility study for the establishment of a small group in Europe for this purpose.

GAO also recommended that steps be taken to evaluate the effectiveness of new procedures bearing on the need for more specific overall U.S.-host country agreements that would result in earlier recoupment of funds from U.S. prefinanced projects. DOD officials advised that they believed it would be unnecessary to negotiate formal host country agreements, since the new procedures were resulting in more rapid recoupment of higher percentages of total project costs. (Report to the Congress, B-156489, Oct. 10, 1969)

U.S. Balance-of-Payments Position

81. Payment of Taxes to Other Governments on U.S. Defense Activities Overseas.—The U.S. Government and various other governments have arranged, generally by agreement or understanding, for U.S. purchases in a country, as well as the supplies and equipment it imports, to be granted exemption from taxes and import duties when items are for the common collective defense or in their mutual national security interests.

GAO found, however, that substantial tax costs had been incurred in several countries. Examples of significant direct and indirect tax costs incurred by the United States over several years are:

| | |
|------------------------|---------------|
| Vietnam | \$28 million |
| Thailand | \$4 million |
| Germany | \$2.2 million |
| United Kingdom..... | \$890,000 |
| Philippines | \$600,000 |
| Republic of China..... | \$300,000 |

These taxes were paid in connection with leases of property, rentals of family housing, procurements in the various countries, and imports of supplies and equipment. They involved real property taxes, local or municipal taxes, business and trade taxes, excise taxes, and import taxes.

The wide variety of problems associated with the administration of tax matters affecting defense expenditures in other countries indicates the need for (1) clearly stated guidance and criteria relating to

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tax-exemption provisions in various agreements, (2) better delineation of responsibilities by DOD, and (3) improved management to insure the development and implementation of procedures useful to identification, measurement, and elimination of significant taxes from procurements.

GAO believes that, when the financial burden of a foreign tax is passed on to the United States indirectly and the tax is substantial, such action is inappropriate, especially in view of the substantial U.S. expenditures for the common collective defense.

GAO recommended that the Secretaries of State and Defense jointly develop and promulgate specific guidelines which will define the U.S. tax exemption policy, clearly establish the responsibilities of the concerned U.S. agencies, and provide for an adequate management system to operate an effective tax relief program.

In the joint comments issued by the Departments of State and Defense, the two Departments recognized that tax exemption problems existed and concurred with the objectives of strengthening U.S. management and establishing improved administrative procedures for dealing with tax relief problems. The joint comments reflected general agreement with GAO's recommendations and a number of corrective actions have been initiated. (Report to the Congress, B-133267, Jan. 20, 1970)

82. Balance-of-Payments and Cost Aspects of Utilizing American-Made Buses Abroad.—The Congress has expressed concern at the leasing of foreign-made buses and added section 404 to the Department of Defense Appropriation Authorization Act for fiscal year 1969 (Public Law 90-500, Sept. 20, 1968) prohibiting the use of any appropriated funds for the purchase, lease, rental, or other acquisition of multipassenger motor vehicles (such as buses) other than those manufactured in the United States. The Secretary of Defense was authorized to make exceptions in cases where acquisition of U.S. vehicles would not be economical or would adversely affect the national interest.

GAO's review showed that the armed services could have reduced their overall budgetary costs and realized significant balance-of-payments advantages by using American-made buses at some locations abroad where transportation services have been provided through leasing arrangements using foreign-made buses.

During fiscal year 1968, the Department of Defense leased about 1,700 foreign-made buses for use abroad

at a cost of about \$7.7 million. Included in this amount were vehicle leasing costs and, in many cases, operating costs, maintenance costs, and driver salaries.

On the basis of GAO's comparative cost calculations, it would have been economically feasible at many overseas locations to terminate or progressively phase out existing leasing arrangements for foreign buses and to replace them with American-made buses.

There are certain practical difficulties in estimating overall advantages that could have been realized by substituting American-made buses for foreign-made buses; but, there can be little doubt that the advantages would have been substantial.

Using cost comparison data developed at certain review locations, GAO estimated that cost savings of from one-third to one-half million dollars could be realized annually. Also, it was estimated that annual dollar payments abroad could be reduced by more than \$3.1 million and would alleviate the U.S. balance-of-payments situation.

GAO recommended to the Secretary of Defense that the military services develop better local operating and maintenance cost data to serve as a factual basis for evaluating the comparative costs of leasing foreign-made buses as opposed to buying American-made buses. GAO also made a series of recommendations designed to increase the usage of American-made buses abroad, particularly at locations where its cost calculations had shown that the greatest savings could be realized through such usage.

Department of Defense officials were in general agreement with these findings and recommendations and are taking appropriate steps to improve local operating and maintenance cost data to be used in cost studies. They also agreed to make appropriate provisions for future procurement of American-made buses whenever cost studies show economic advantages to the United States. (Report to the Congress, B-163869, Feb. 5, 1970)

International Activities—General

83. Questionable Recovery of Economic Assistance Loans.—In GAO's opinion, the trends of the Agency for International Development's (AID) lending activities make it clear that the furnishing of economic assistance loans does not insure that the funds will be recovered. GAO believes the ultimate recoverability of the loans will depend primarily on the future debt repayment capacities of the borrowers, which

cannot be predicted because of the economic difficulties of the borrower countries and the uncertainties inherent in efforts to strengthen their economies.

AID increased its outstanding economic assistance loans from \$7.4 billion at June 30, 1964, to \$12.6 billion at June 30, 1968, an increase of \$5.2 billion. Although most of the increase was in dollar loans, \$1.3 billion of the increase was in foreign currency loans subject to possible changes due to variations in exchange rates. This increase almost doubled the base to which future exchange rate variations on loans could be applied.

Another effect of the lending activities was a concentration of outstanding loans at June 30, 1968—both dollar and local currency loans—in the countries where significant devaluations had taken place. At June 30, 1968, 70 percent of all the outstanding loan balances were owed by the borrowers in 14 countries whose reduced currency values had resulted in 97 percent of the exchange rate reductions in the dollar value of local currency loans during the preceding 4 years.

Devaluations during the 4-year period have caused AID to incur a reduction of \$1.1 billion in the equivalent dollar value of local currencies disbursed or available to be disbursed for loans. This amount, plus an \$8 million write-off of uncollectible loan principal and interest, offset the interest recorded as earned on all loans. When combined with all the income and direct expenses of the Loan Program, excluding its share of AID's administrative expenses, the results of operations show an excess of recorded costs over income of \$105 million.

AID recovered relatively small amounts in loan repayments and loan interest collections, primarily because the loan agreement terms did not provide for substantial recoveries during the period. The recoveries would have been larger, however, if all borrowers had complied with the initial terms of their loan agreements. For some of the principal and interest amounts scheduled for recovery during the period, AID agreed to amend loan agreements postponing their due dates.

GAO believes the information reported should be of special interest to the Congress because of the frequently accepted premise that recipients of U.S. economic assistance will ultimately repay most of the assistance received. The Congress placed increased emphasis on ultimately recovering assistance funds with the passage of the Foreign Assistance Act of 1961. This act emphasizes the furnishing of economic assistance

in the form of loans which are required to be based on a finding of reasonable prospects of repayment.' (Report to the Congress, B-133220, Sept. 11, 1969)

84. Questionable Financing of a Private Venture for the Raising and Marketing of Corn.—At the request of the chairman, Senate Committee on Foreign Relations, GAO reviewed the decisions and actions of the Agency for International Development (AID) in supporting a project owned primarily by the Calabrian Co., Inc., a commodity trading corporation, under the investment guaranty program authorized by the Foreign Assistance Act of 1961. This project was for the raising and marketing of corn in Thailand.

Throughout the life of the project, AID bore almost all the risk of loss in the privately owned venture, although neither AID nor Calabrian intended that this would be the final result of the project's financing. From AID's viewpoint, the actual financing differed from the intended financing to such an extent that AID could no longer justify its continued support. This resulted in the project operations being curtailed substantially at corn harvesting time in 1968 and being discontinued eventually. Calabrian, on the other hand, has maintained that AID's financing actions prevented the intended financing's becoming a reality and caused the project's failure before its success was possible.

AID issued three 100-percent loan guaranties during 1967 and 1968. AID also permitted Calabrian to get additional financing during both years by using the guaranteed loan funds to generate additional loans. The combination of these two financing techniques provided the project with \$7.6 million of a total of \$8 million invested in the project from U.S. and foreign sources prior to the curtailment of operations at corn harvesting time in 1968. AID intended that, to compensate for its substantial support of the project, future adjustments be made to the composition of the financial structure and that its final support be no more than 75 percent of the planned U.S. and foreign investment. Neither the intended adjustments nor the planned U.S. and foreign investment materialized.

GAO expressed the opinion that AID should, in all cases, require the owner who controls a project supported with guaranties of the Calabrian type to assume a meaningful portion of the total risk involved in the project, since to do otherwise would not be conducive to good financial management.

During the time the project was supported by AID, efforts were made to achieve the project objectives,

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but the financing was insufficient to permit full implementation of the plans. Large volume grain facilities were constructed in Thailand, but the planned farmer assistance program was not established and the project suffered from extensive operating losses. The losses resulted from (1) the acquisition of insufficient corn, primarily in 1967, (2) the inability to earn a financial margin on the corn acquired in 1967, and (3) the payment of high overhead expenses applicable to both 1967 and 1968. Calabrian has asserted that the principal accomplishment of the project was its favorable overall impact upon the Thai farm economy.

In view of the financing of the Calabrian project, and particularly because the Foreign Assistance Act of 1969 authorizes similar financing arrangements, the committee may wish to consider action to prevent the underwriting of almost all the investment in a project through the issuance of investment guaranties.

GAO expressed the belief that the investment guaranty program could be improved by modifying the existing legislation to recognize the distinction that exists between an investor in a project and an owner who controls the project. In GAO's opinion, the improvement could best be accomplished by requiring that the owner who controls a project of the Calabrian type assume a meaningful portion of the total financial risk involved in the project as a precondition to the furnishing of support through extended risk investment guaranties.

The Agency advised that these recommendations were receiving appropriate consideration by the officials responsible for management of the guaranty program. (Report to the chairman, Senate Committee on Foreign Relations, B-166077, Apr. 1, 1970)

85. Performance Evaluation and Surveillance Over the Contractor and Subcontractors.—In May 1968 GAO reported on the activities under contracts with the American Institute for Free Labor Development and the Agency for International Development. In May 1969, the chairman, Senate Committee on Foreign Relations, requested that GAO make a followup review and examine the:

Relative success of the programs.

Improvements in management.

Subcontractual relationship of the Institute and U.S. unions.

GAO did not reach a conclusion on the success or effectiveness of the Institute's programs because of the limited extent of the followup. The Institute, however, was making substantial efforts to reach Latin American

union members with its message on free labor development. According to the Institute, training was offered under its programs in Brazil and Chile to over 4,800 union members in 176 seminars including 25 advanced or specialized seminars with about 700 participants between July 1, 1967, and May 29, 1969.

AID had made only limited evaluations of the Institute's programs. A systematic review was not being made of programs in Brazil or Chile. The programs should be monitored independently from a political and technical viewpoint to ascertain their effectiveness.

The Institute had still not implemented a systematic program to evaluate its educational activities which precluded a determination as to the effectiveness of the overall educational program.

For example, its method of reporting enrollees could result in counting the same individual twice or more. In Chile this duplication could have been as high as 20 percent.

Its programs in both Brazil and Chile did not have a regular system to follow up on the graduates of its training courses. Such a system is needed to see if they are making use of the knowledge acquired.

The program's curriculums in Brazil and Chile differed widely. Although some courses did and should vary, GAO believed that the majority of the basic courses necessary to build free labor unions should have been the same.

The Institute had engaged in social projects—such as low cost housing and community facilities—to give labor unions active involvement in the economic and social development of their countries. GAO found that the Institute:

Had not been successful in developing housing projects.

Small projects had had no significant effect on strengthening labor unions due to their limited size and number.

Community service centers had not become self-sufficient as planned.

There have been some improvements in the Institute's financial management since the first review, but deficiencies continued to exist and substantial improvements still were needed.

The Institute, under subcontracts with U.S. unions affiliated with International Trade Secretariats, coordinates and administers a program of technical assistance to the free and democratic trade unions in Latin America. In GAO's opinion, neither the Institute nor AID had made an assessment of the subcon-

tractors' activities including a determination as to whether they follow U.S. policy guidelines.

GAO suggested that AID's administrator:

Reevaluate the AID-Institute contract to implement a system that provides for direct surveillance by AID. GAO believed that this was necessary for effective contract administration.

Take steps necessary to strengthen the Institute's financial management. This should include more direct control by AID over Institute finances in the field.

AID plans to undertake a comprehensive evaluation of the Institute's performance and informed GAO that the Institute was starting an evaluation system of its education program. GAO believes that these efforts can strengthen the programs substantially.

The Institute disagreed, in general, with GAO's conclusions and recommendations. However, it recognized the need for continued improvement and said that the suggestions were useful in improving its management and effectiveness. (Report to the chairman, Senate Committee on Foreign Relations, B-161794, Apr. 23, 1970)

86. Improper Use of Foreign Assistance Funds To Finance Vehicles for Defense Requirements.—

GAO reported that about \$8.6 million of the Agency for International Development's (AID) economic development funds provided to the Government of India (GOI) had been used to fill orders from the Indian Ministry of Defense for components and parts—i.e., knockdown kits—for 1-ton four-wheel-drive trucks, known as power wagons, and for other types of trucks.

The financing by AID of such items imported primarily in 1963 and 1964 was approved by the AID Mission in India in July 1968 with AID/Washington concurrence after AID Mission auditors had reported that the items were imported under the AID loans.

The Mission audit report issued in March 1968 maintained that the commodities imported were ineligible for AID financing and suggested a claim for refund be filed against the GOI. The Acting Mission Director stated in July 1968 that no direct delivery was made to the military and the commodities at issue were not inherently "military type" and were suitable for nonmilitary use. He determined that the commodities should not be considered ineligible and it was, therefore, not necessary nor appropriate to file a refund claim against the GOI.

GAO believes that these items are, in essence, military assistance and therefore are not legally avail-

able for financing from economic assistance appropriations. Consequently, GAO believes that AID should reconsider its decision not to seek refund.

AID's general policy is that economic assistance funds are not intended to finance materials directly for the account of or on behalf of the defense establishment. AID has stated that identification in import documents of users of commodities is pertinent to this intent and AID has sought refund in cases having similar characteristics.

GAO believes, therefore, that for AID to construe the exclusion of military-type vehicles, components, and parts as pertaining only to those items which are inherently military, indicates a need to reconsider its existing policy intent.

GAO recommended that the Administrator, AID, direct a reexamination of AID's guidelines for the purpose of reiterating or amplifying its intent in the loan agreements and supporting documents, so that the country, supplier, and responsible AID officials will be in a better position to implement this intent. GAO recommended also that the Administrator, AID, require a reconsideration of the decision not to seek refund in this particular case.

As a result of these recommendations, AID made a thorough review of its guidelines and their application. Based on its examination, AID issued a Policy Determination formalizing guidelines on economic and military assistance.

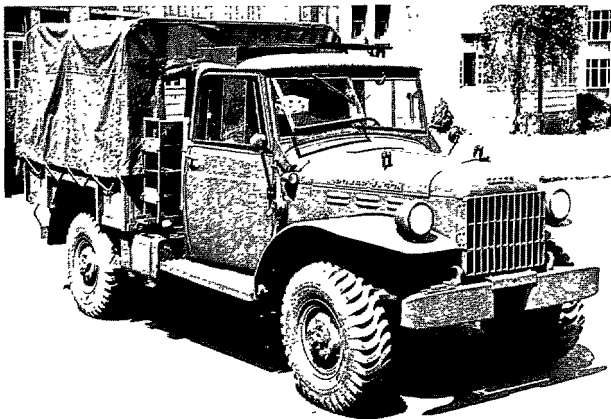
At June 30, 1970, the Agency was still reviewing GAO's recommendations. (Report to the Congress, B-167196, Sept. 18, 1969)

87. Efforts To Collect International Postal Debts and To Pay Postal Amounts Owed in Excess Foreign Currencies.—

By international agreement the U.S. Post Office performs services on a reimbursable basis for other governments, including moving mail from overseas within and through the United States. As of January 1969, 12 Latin American and one Asian country that were in arrears in payment of their postal obligations owed the Post Office and U.S. air carriers (through the U.S. Post Office Department) approximately \$9.8 million for international mail services. In the case of three of these countries, portions of the debt dated back to the early 1950's.

GAO reported in August 1969 that no formal interdepartmental understanding had been reached between the Post Office and State Departments to pursue collection of outstanding amounts and that State Department actions essentially have included only the

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These photographs compare a power wagon similar to those discussed in the first paragraph of Item 86 with a commercial vehicle. Left: Power wagon assembled by PAL for the Indian ministry. Right: Commercial vehicle produced by PAL. (PAL—PremierAutomobiles Limited, a private Indian motor vehicle manufacturer.)

referral of Post Office-furnished claims to the applicable American Embassy abroad. Communications from the embassies to the State Department are also transmitted to the Post Office Department. Thus, the State Department in Washington has acted only as a means of communication between the Post Office Department and the U.S. Embassies.

The U.S. Post Office had been paying its international postal obligations in certain countries with dollars rather than with excess foreign currency which the United States owns in substantial amounts. Use of the excess foreign currency would favorably affect the balance of payments and reduce government budgetary costs. However, in light of the international agreement regulating postal affairs among member countries, the creditor country would have to approve such payment.

GAO recommended that the State Department and the Post Office further coordinate their efforts to collect amounts owed by other governments, and that as a matter of formal agreement, the State Department should make every reasonable effort to collect past due international postal debts. Also, assessing interest on past due accounts in accordance with regulations of the Universal Postal Convention and collecting amounts due in foreign currency should be considered in collecting outstanding accounts.

GAO further recommended that the State Department take appropriate action to arrange with the creditor countries for the payment of international postal transactions in U.S.-owned excess foreign currency wherever possible.

Subsequent to the initiation of GAO's review, representatives of the two Departments, along with Treasury Department officials, met to review collection procedures for international postal accounts. They took action to attempt collection in foreign currency under certain circumstances.

The Post Office and State Departments have been attempting to collect the past due postal debts for some time, but the Post Office Department stated that it did not think the assessment of interest on unpaid accounts was desirable.

The State and Post Office Departments stated that appropriate action would be taken where such action appeared warranted and advisable in respect to paying U.S. postal obligations in excess currencies. (Report to the Congress, B-165828, Aug. 11, 1969)

88. U.S. Support of the Philippine Civic Action Group in Vietnam.—In March 1970, GAO reported on a study of the payments made to the Government of the Republic of the Philippines by the Government of the United States in support of the Philippine Civic Action Group (PHILCAG) in Vietnam.

The report stated that the quid pro quo assistance given to the Philippine Government, which was funded by the Department of Defense, consisted of approximately \$35 million in equipment and logistic support and about \$3.6 million of direct payments to the Government of the Philippines. There was also evidence that other forms of U.S. assistance to the Philippine Government, such as military and economic aid funded

under the Foreign Assistance Act, were increased during the period of the PHILCAG commitment to Vietnam.

The \$3.6 million of direct payments included in the assistance was appropriated by the U.S. Congress for the Department of Defense and paid to the Philippine Government in quarterly payments between October 1966 and October 1969. One additional payment was made in January 1970. GAO was unable to ascertain, however, whether the PHILCAG troops actually received the per diem and overseas allowances according to the daily rates which were used to compute the amount of the quarterly payment by the United States. GAO's inquiries into this matter were confined to U.S. sources and disclosed that no information was required of or received from the Philippine Govern-

ment on the disposition of the funds paid to them by the United States.

GAO reported also that its work was seriously hampered and delayed by the reluctance of the Departments of State and Defense to give access to the documents, papers, and records which GAO considered pertinent to the review. Generally, GAO was given access to only those documents, papers, and records which it **was** able to specifically identify and request, and then only after time-consuming screening at various levels within the Departments. In view of the restricted access to records, it is possible the agencies may have withheld information which was pertinent to the study. (Report to the chairman, Subcommittee on U.S. Security Agreements and Commitments Abroad, Senate Committee on Foreign Relations, B-168501, Mar. 21, 1970)

PROCUREMENT

Contract Administration

89. Evaluation of Cost Plus Award Fee Type Contract Performance.—At the National Aeronautics and Space Administration's (NASA) Manned Spacecraft Center, award fees of about \$990,000 were paid to a contractor for computer programming and operational support services primarily on the basis of NASA contract evaluators' opinions and judgments as to the contractor's performance levels. Opinions and judgments were used because of a lack of objective standards for evaluating contractor performance.

For example, evaluation plans under the contract referred to "average or standard performance by a qualified contractor" but did not give criteria for that level of performance. Differences of opinion existed between evaluators as to the contractor's performance level and as to what constituted a proper evaluation. Actual contractor performance could not be directly related to the assigned contractor performance scores.

It was GAO's opinion that the contractor's work output should have been evaluated on the basis of objective measurement techniques as suggested by NASA's contracting guide.

NASA procurement officials agreed that more definitive output standards for evaluating the contractor could have been established. They stated that the guide would be revised to recognize NASA's more recent experience in the use of award fee contracts and that consideration would be given to an overall analysis of award fee contracts at the various NASA centers. (Report to the Administrator, NASA, B-133394, Dec. 18, 1969)

89a. Feasibility of Cost Accounting Standards for Negotiated Contracts.—A 1968 amendment to the Defense Production Act of 1950—Public Law 90-370—directed GAO to study the feasibility of applying uniform cost accounting standards to negotiated defense contracts in excess of \$100,000.

During the congressional debate prior to enacting the legislation views were expressed that uniform cost accounting standards are necessary mainly because of substantially increased costs of procurement and dif-

ficulties in contract administration. In fiscal year 1969, 89 percent of military procurement—over \$36 billion—was obtained by contract negotiation. In a negotiated award the estimate of a contractor's cost plays an important role in the establishment of the price. The cost of any specific order can only be measured by the application of cost accounting principles. In the absence of "uniform principles" the entire burden is placed upon procurement officials to evaluate the contractor's accounting practices without the guidance of cost standards recognized by Government and industry.

"General cost principles and procedures" for use in negotiated defense contracts are contained in Section XV of the Armed Services Procurement Regulation (ASPR). GAO found that the effectiveness of ASPR is impaired because (1) it makes frequent references to generally accepted accounting principles and/or regulations of the Internal Revenue Service, neither of which was intended to serve contract costing purposes, (2) it lacks specific criteria for the use of alternative accounting principles and indirect cost allocation methods, and (3) it is of limited applicability, since it is mandatory for only cost-reimbursement type contracts.

GAO also found that uniform cost accounting standards could provide a common framework for estimating prospective cost or for the determination of the actual cost of a contract. They could provide the guidance, support, and coordination required for better understood estimates and subsequent reports of actual costs.

GAO's major conclusion was that it is feasible to establish and apply cost accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts. Other conclusions were as follows: (1) it is not feasible to establish and apply cost accounting standards in such detail as would be necessary to insure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of cost, under all the wide variety of circumstances involved in Government contracting, (2) cost accounting standards should apply to all ne-

gotiated procurement contracts and subcontracts, (3) cumulative benefits from the establishment of cost accounting standards should outweigh the cost of implementation, (4) new machinery should be established for the development of cost accounting standards, (5) standards of disclosure and consistency should be adopted at an early date, and (6) contractors should be required to maintain records of contract performance costs in conformity with cost accounting standards and any approved practices set forth in a disclosure agreement or be required to maintain the data from which such information could be readily provided.

Hearings were conducted on this report by the Subcommittee on Production and Stabilization, Senate Committee on Banking and Currency, on March 31, 1970, and by the House Committee on Banking and Currency on June 19, 1970, in connection with legislation for extending the Defense Production Act of 1950. As a result of the hearings, a new section providing for the establishment of a Cost Accounting Standards Board was added to that act by the enactment of Public Law 91-379, approved on August 15, 1970.

The Board is to be an agent of the Congress and independent of the executive departments and is to consist of the Comptroller General as its Chairman and four members to be appointed by the Comptroller General. The Board is to promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under negotiated Federal contracts and subcontracts in excess of \$100,000. The Board is also to make rules and regulations for the implementation of the cost accounting standards promulgated. Such regulations are to require defense contractors and subcontractors, as a condition of contracting, to disclose in writing their cost accounting principles. (Report to the chairmen, Senate and House Committees on Banking and Currency and Armed Services, B-39995 (1), Jan. 19, 1970)

90. Feasibility of Using "Should Cost" Concepts in Auditing and Reviewing Contracts.—The Joint Economic Committee, through its Subcommittee on Economy in Government, asked GAO to study the feasibility of applying "should cost" analyses in GAO's audits and reviews of Government procurement. The committee defined the "should cost" approach as an attempt to determine the amount that a

weapons system or product ought to cost given attainable efficiency and economy of operation.

GAO found that:

It is feasible in auditing and reviewing contractor performance to utilize "should cost" analyses.

The greatest opportunity for the Government to benefit from the application of "should cost" appears to be through its use, on a selective basis, in preaward evaluations of contractors' price proposals.

In addition to preaward reviews, Government agencies should consider performing "should cost" reviews selectively during the performance of the contract—on a postaward basis.

The extent and depth of the application of "should cost" concepts should be flexible and be based upon information developed in the initial stages of the review. The subsequent detailed review efforts, however, should be of sufficient depth to provide full documentation of inefficiencies and their impact on contract costs.

The success of any "should cost" work would depend to a large extent on (1) the skill of a Government team in pinpointing areas for cost improvement by a contractor, (2) genuine cooperation between the Government and the contractor in providing adequate exchange of information between "should cost" review teams and contractor personnel, and (3) a willingness by contractors to make changes based on the team's efforts when they appear to be constructive and practical.

(Report to the Congress, B-159896, May 20, 1970)

91. Government-Owned Materials in Plants of Overseas Contractors.—The Department of Defense provides overseas contractors with materials as part of its contractual agreements. The military services are responsible for reviewing the efficiency of the contractors' systems for control of the materials so provided. GAO reviewed management of such material by the military services at five plants of overseas contractors.

The contractors were not following the contractual provisions relating to acquiring and retaining Government materials. More specifically, they were not (1) periodically reviewing material requirement levels, (2) properly computing use of materials, (3) giving full consideration to all available stock on hand or due to arrive, (4) canceling outstanding orders found to be in excess of needs, or (5) properly determining reserve levels of materials. Many of the deficiencies could

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have been prevented, or corrected earlier, by better surveillance of the contractors' performance by Government personnel.

Inadequate administration of Government property by the contractors and the military services resulted in unnecessary investment in inventories, increased transportation costs, and possible unnecessary procurement or shortage of materials at some locations. As a result of GAO's tests and subsequent reviews by the contractors, about \$3.8 million worth of Government material was declared excess and made available for redistribution. In addition, contractors requested cancellation of orders for about \$1.4 million worth of Government material.

GAO suggested that the Secretary of Defense consider enlarging the property administration staffs, providing the staffs with needed training, and taking measures for achieving greater cooperation by contractors in more effective management of materials furnished by the Government. GAO recommended that the Secretary take appropriate action to monitor the implementation of planned actions by the military services to insure that satisfactory progress is being made to improve the quality of property management.

The Department of Defense agreed and indicated a firm intention, on its part and on the part of the military departments, to insure that the deficiencies referred to in this report are overcome. (Report to the Congress, B-140389, June 17, 1970)

92. Determining Compliance With Construction Contract Specifications.—The District of Columbia Government (1) had not made required and recommended tests and checks to determine whether concrete met building construction specifications, (2) had accepted concrete that did not meet specifications, (3) had not received required samples, shop drawings, descriptive literature, and certifications to determine whether materials, equipment, and systems met specifications, and (4) had accepted compacted soil (fill and backfill) that did not meet specifications.

The District had not provided its site inspectors with written guidelines clearly defining mandatory and recommended inspection practices and had not provided equipment necessary to make required tests. Nor did it have an adequate system for reporting to management the frequencies and results of concrete tests.

During GAO's review the District took action, as GAO had suggested, to improve its inspection policies and practices by providing needed guidance and test

equipment to its inspectors and by implementing a better system for reporting and reviewing results of inspection activities. (Report to the Congress, B-118638, June 9, 1970)

Contracting Policies and Practices

93. Methods for Enhancing Competition in Weapons Systems Procurement.—The chairman, Subcommittee on Antitrust and Monopoly, Senate Committee on the Judiciary, asked that GAO evaluate two methods, proposed by individuals outside of the Department of Defense, for improving competition in procurement by the Department of Defense of weapons systems, components, spare parts, and related items. The two methods are referred to as "parallel undocumented development" and "directed technical licensing."

Parallel undocumented development—This method implies sustaining two or more contractors well into the period of engineering development—which normally is not done—and provides for competitive award and pricing of production on the basis of demonstrated prototypes instead of relying heavily on paper studies, plans, and proposals. Under this method, documentation ordinarily required by the Government for procurement, support, maintenance, and other purposes would be deferred—except for the data essential to the development process itself—until one of the production contractors is chosen.

GAO expressed the opinion that this procurement method has merit as an acquisition strategy for advanced weapons systems, subsystems, and other military goods which (1) have probable technological or strategic uncertainties or which intend to penetrate state-of-the-art frontiers, (2) are to be produced in quantity, or (3) have a low or moderate ratio of development cost to total acquisition cost.

This procurement method is favored because it offers credible expectation that:

Rival performance of physical hardware can be tested and compared more effectively before a decision is made to go ahead with production.

The cost overrun problem should diminish because contractors would not be forced to price out manufacturing costs before critical unknowns had been dispelled and a product made clearly visible.

More than one design approach could be appraised.

It should be easier to back away from doubtful design concepts before heavy investment in the designs.

It should provide flexibility in the face of changing threats and accelerating technology and the design could be revised or canceled before the Government and the contractor are overcommitted.

There should be stimuli to creativity at work so that more innovations and breakthroughs may be achieved.

The competition would be analogous to the commercial market place in that contractors should seek to excel in manufacturing economies and achieve superior reliability, maintainability, and operating cost effectiveness in their competing products since these factors would help determine the winner.

GAO suggested that certain of the programs of the Department of Defense, in early development and under consideration by the Armed Services Committees, may be candidates for competitive prototyping under austere conditions. Such programs include the F-15 fighter aircraft, the Subsonic Cruise Armed Decoy (SCAD), and the AX close support aircraft. The extent to which these or other programs should be prototyped through initial flight testing as opposed to a fully integrated systems engineering development is a matter for considerable technical judgment. Where the situation is unclear, appropriate congressional committees may wish to obtain such judgments from independent experts.

Directed technical licensing—This method proposes a clause for insertion in the early development contract allowing the Government to reopen competition for subsequent or follow-on production, select the winner, and appoint him as licensee. It is aimed at obtaining competition, which is ordinarily very difficult to achieve, in the procurement of technological hardware. In return for royalty and technical assistance fees, the licensor would then provide the winner with manufacturing data and technical assistance to help the licensee produce successfully.

The main objectives of this method are attractive: competition to be reopened at procurement time and the Government role as an intermediary in transferring technical knowledge from one firm to another to be diminished. GAO expressed the opinion, however, that, despite its imaginative approach to the problem of transferring technology from one firm to another, this method posed problems which seem to

evade a workable solution. Some of the problems include :

- Motivating the contractors to cooperate.
- Setting the magnitude of the fees.
- Protecting trade secrets adequately.
- Securing straightforward bidding procedures.

In addition to an evaluation of the two methods for improving competition in procurement, CAO offered the following observations for consideration of the Congress and the Department of Defense.

Multiple high technology advances should not be sought simultaneously in a single weapon system when early deployment is contemplated, except in response to a sudden and grave threat to the Nation.

Competitive prototyping is opposed in some quarters on the grounds of extra cost and time. If this point is correct—and there is no hard evidence either way—the increased cost will appear at the beginning of the program. Reduced procurement outlays should follow with confidence that the new device will perform its intended function. Also, cancellation or modification at the prototype stage would be much less costly than at the stage of advance production.

Because of funding and time constraints associated with major weapon systems, the tendency may be to limit use of the parallel undocumented development method of Procurement to smaller, less complicated hard goods. This would miss the point. The cost or feasibility of successful production of such items is not so uncertain as to cause enormous miscalculation of expenditures as in the case of high risk major weapons systems.

Major hard goods for which parallel prototyping is impractical should be competed further into engineering development before the single source is selected. Uncertain subsystems, at least, should be considered for competitive prototyping.

The acquisition strategy to be used is one that best fits the kind of article to be procured, its particularities, and the degree of risk involved. To help prevent the use of the wrong acquisition strategy and to moderate the impact of time and funding constraints, there should be a carefully designed decision guide to identify the various acquisition strategies, lay out the features and characteristics of each, and show the most practical procurement situations for their use.

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The amount and kinds of documentation required and deferrable during development should be reexamined.

Overemphasis on price competition at the outset of the development of technological hardware—the time of greatest uncertainty—may lead to underestimated cost and subsequent overruns.

(Report to the Congress, B-39995, July 14, 1969)

94. Selection of Method of Contracting (Formal Advertising or Negotiation).—Although about 90 percent of the value of initial award packages for ship overhauls were awarded by the Navy under advertised contracts, the circumstances under which the awards were made were not conducive to keen price competition because:

The Navy's policy of having ships overhauled at or near home ports reduced the number of prospective bidders.

The number of shipyards that could do certain types of overhauls were limited to the few that had capabilities for hauling all sizes of vessels.

The specialization by contractors within the ship repair market narrowed the choice of firms.

When such competitive constraints prevail, advertised procurement methods should be used only when there are other assurances that prices are fair and reasonable. The Navy tried to get this assurance by making its own estimates and comparing them with bids submitted, but the Navy apparently lacked confidence in the reliability of its own estimating system and placed little reliance on the results of the comparisons.

As a rule, substantial additional work was added to the initial award package after a contract was awarded. The price for the additional work was generally negotiated on a sole source basis because the ship was immobilized in the contractor's yard and it was impractical to solicit competition. This placed the Government in a disadvantageous bargaining position. The Government's disadvantage was further increased because:

Prices for the additional work were frequently negotiated after the work had been completed without knowledge by the Navy of the costs incurred.

In the case of changes affecting the work called for in the initial award package, the Navy had no way of knowing what adjustment should be made in the initial award price.

Considering the short period of contract performance (generally 90 days), the Navy's procedures did

not seem adequate to handle the tremendous volume of changes in a timely manner.

GAO proposed to the Secretary of the Navy that:

Invitations for bids require contractors to submit itemized bids and that this information, together with Navy estimates, be used to develop histories that would provide a basis for identifying and resolving differences between bid prices and Navy estimates.

Firm determinations be made as to the adequacy of competition obtained and the reasonableness of the bid prices and that, when the bid prices are significantly higher than the Navy's estimates and the differences cannot be justified, the bids be rejected and an attempt made to negotiate prices.

The many low dollar change orders be negotiated by Navy representatives stationed at contractors' shipyards at the time the work is authorized.

Should it become necessary to negotiate after the work is completed, it seems reasonable that the Navy use the same cost information, as a basis for negotiation, as that available to the contractor.

The Navy agreed substantially with these proposals and stated that corrective action either had been taken or was planned. The Navy stated further that future contracts would include a clause requiring contractors to furnish itemized costs after completion of the work and that such cost information would be used to establish a data bank for evaluating bids on future overhauls. (Report to the Congress, B-133170, Mar. 19, 1970)

95. Selection of Type of Contract (Fixed-Price or Cost-Type).—Early in 1965, because of the Vietnam conflict, there developed an urgent demand for general purpose bombs. During calendar years 1965-67, the Navy awarded contracts for the production of 4.5 million 250- and 500-pound bomb bodies. Firm fixed-price negotiated contracts amounting to about \$472 million were awarded to six Contractors. The contracts were subject to the Truth-in-Negotiations Act (Public Law 87-653) which provides that contractors be required to submit cost or pricing data and to certify that such data are accurate, complete, and current.

GAO examined into the prices negotiated in 34 procurements totaling about \$343 million. The examination was directed to evaluating the reasonableness of significant estimates, accepted by the Navy, in relation to cost data available to the contractors at the time of each negotiation.

The prices could have been reduced by millions of dollars if the Navy had:

Required the contractors to submit or identify in writing accurate, complete, and current cost or pricing data in support of cost estimates included in price of proposals.

Made adequate reviews and evaluations of the factual data available to the contractors in support of the estimates.

More specifically, GAO found that:

Prices negotiated for 33 procurements totaling \$309 million were higher by about \$13.9 million than indicated by cost or pricing data available to the contractors prior to each of the negotiations.

Prices negotiated for 12 procurements totaling \$172 million included cost estimates of about \$46 million for which sound and realistic cost or pricing data were not available.

Navy contracting officials had not requested pre-award audits for eight of the 34 procurements. Where the Navy requested such audits, it imposed time restrictions which limited the scope of the audits in several instances.

Since the time limitation and the absence of realistic cost data precluded adequate documentation of the contractors' proposals and adequate performance of agency audits, GAO believed that the Navy should not have used firm fixed-price-type contracts. More flexible types of contracts would have been more appropriate.

GAO proposed to the Department of Defense (DOD) that it consider these findings, as well as any additional information available, to determine the extent of the Government's legal entitlement to price adjustments with respect to these procurements. The Navy agreed and stated that actions had been started to make the determinations GAO had proposed.

The Navy did not believe that it could recover the amounts included in firm fixed prices for unsupported cost estimates, which had been accepted by both parties to accommodate the risks of production. The Navy stated that, at the time of awards, there was an emphasis by DOD officials on the use of firm fixed-price contracts to the maximum extent and there was an overzealous application of this high level policy pronouncement by contracting officials. DOD has since recognized this overreaction and has issued instructions concerning the misuse of firm fixed-price contracts.

DOD's procurement management review group had reviewed the practices of its offices responsible for ammunition procurement and had noted procurement practices that need improvement similar to those GAO noted. Also, the Defense Contract Audit Agency had performed postaward audits of 20 ammunition contracts for defective pricing and had reported defective pricing in some instances. (Report to the Congress, B-118710, Dec. 11, 1969)

96. Negotiation of Prices on Basis of Contractors' Catalog or Market Prices.—GAO examined negotiated contracts in amounts over \$100,000 to ascertain whether determinations of Department of Defense (DOD) officials—that negotiated prices were based on catalog prices of commercial items sold in substantial quantities to the general public—and related policies seemed to adequately carry out the objectives of Public Law 87-653. In accordance with the law, in such cases procurement officials normally rely on the competitive forces of market rather than cost or pricing data in determining whether proposed prices are fair and reasonable. GAO estimated that contract awards based on contractors' catalog prices probably have exceeded \$1 billion annually.

In GAO's review of 68 such contracts, it found that contracting officers had obtained a copy of the contractor's catalog or price list for each of the contracts prior to award at the catalog price. However:

For 45 of the 68 contracts, the contracting officers had no record of having obtained factual information from contractors showing the quantity of commercial sales during a specific recent period.

For 23 of the 68 contracts, the contracting officers had obtained contractors' sales data but had verified the data for only nine of the contracts.

DOD policies and criteria did not provide specific guidance with respect to the amount of commercial sales that should be considered "substantial." This had led to acceptance of diverse and/or seemingly minor amounts of commercial sales as "substantial." In this connection, the Renegotiation Act establishes for standard commercial items a specific percentage of commercial sales to total sales for determining whether the items are subject to the Renegotiation Board's profit review.

In some instances the largest individual commercial sales were in substantially smaller quantities than those purchased under individual DOD contracts. Under these circumstances, there was no assurance that the prices paid by the Government for the quan-

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ties purchased would have been paid by commercial buyers of comparable quantities.

DOD has improved its guidance with respect to types of data to be obtained from contractors prior to the award of catalog or market priced contracts. However, it has not provided any new guidance as to how the data are to be used.

GAO recommended that DOD :

Provide more definite criteria for determining what constitutes substantial sales to the general public. In this connection, consideration should be given to establishing criteria similar to those for standard commercial items in the Renegotiation Act.

Revise the Armed Services Procurement Regulation to require evidence, as a condition for acceptance of a catalog price, of recent individual commercial sales in quantities approximately similar to the proposed quantities for purchase by the Government.

Consider requiring contracting officers to (1) obtain a certification from the contractor that the sales data being submitted are complete and accurate, (2) include a provision in each proposal and any resulting contract which would permit Government representatives to examine the contractor's pertinent books and records in order to verify the information submitted in support of the proposal, and (3) verify sales data obtained from the contractors.

DOD stated that it was undertaking a more thorough study of the adequacy of its catalog pricing policies and practices. With respect to GAO's recommendations, DOD stated that it did not consider (1) the establishment of a specific percentage of commercial sales to be an appropriate ground rule for catalog price determination and (2) the criteria in the Renegotiation Act for standard commercial items to be analogous to the bases for substantial sales to the general public at catalog prices. (Report to the Congress, B-39995, Dec. 3, 1969)

97. Evaluation of Contractor's Cost or Pricing Proposals.—GAO reviewed three contracts awarded by the Army to a contractor for production of ammunition fuzes to examine into the reasonableness of the prices negotiated subject to the provisions of Public Law 87-653—the Truth-in-Negotiations Act. The act requires contractors to submit cost or pricing data and

to certify that such data are accurate, complete, and current.

The data submitted by the contractor did not provide details in support of major cost elements included in the price proposals. The prices could have been reduced significantly if the contracting officer had required the contractor to submit detailed cost or pricing data in support of material and labor estimates and if agency officials had made adequate evaluation of the data.

GAO found that the prices negotiated for two of the three contracts included :

Estimated material and labor costs that were \$3,499,800 higher than indicated by cost information available to the contractor but not made known to the Army.

Estimates totaling \$1,587,200 for anticipated price increases, for production lot losses, and for scrap and rework for which the contractor had no factual support.

The Army agreed with GAO's proposal that it seek appropriate recoveries under the defective-pricing-data clauses of the contracts and stated that it had made demand on the contractor in the amount of \$4,022,570 under these two contracts. In June 1970 the Army advised GAO that it had negotiated its claim with the contractor and had accepted a recovery of \$1,300,000 in final settlement of the claim. The Army stated that, after a thorough analysis of its position on the contracts, it had determined that its position was not strong enough to support the original demand.

GAO's review of the third contract showed that the target costs negotiated for material were \$227,100 higher than warranted. Unless the target costs and target profits are adjusted, the Government would incur increased costs of \$123,650 under the incentive provisions of the contract. The Army stated that it would take action to negotiate a reduction of \$227,100 in the target costs.

Subsequent to the negotiation of these contracts, Defense regulations were revised to emphasize that contracting officers require contractors to submit, either actually or by specific identification, the available factual cost information in support of noncompetitive proposed prices expected to exceed \$100,000. Contracting officials were also required, generally, to request evaluations of such proposed prices. Defense procurement management officials are currently reviewing practices of procurement activities to ascertain whether procurement regulations are understood,

complied with, or need further clarification. (Report to the Congress, B-163874, July 15, 1969)

98. Inclusion of One-Time Costs in Follow-On Contracts.—The Army negotiated daily rental rates for barges which included the contractor's costs for towing the barges from the Philippines to Vietnam and returning them when no longer needed. The towing costs for a number of the barges already in service in Vietnam had been provided for and recovered in rates negotiated under prior contracts. GAO estimated that the Army could have saved \$664,000 had the towing costs been eliminated from the rental rates and provided for in the contracts as a separate item to be paid once for each barge delivered to Vietnam.

These contracts were subject to the requirements of Public Law 87-653—the Truth-in-Negotiations Act—which provides, among other things, that contractors submit cost or pricing data and certify that such data are accurate, current, and complete, prior to the award of negotiated noncompetitive contracts over \$100,000. The contracts also included a clause permitting the Government to recover any significant increase in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data.

In response to GAO's findings, the contractor took the position that the contracts were negotiated on the basis of adequate price competition without reliance on the cost or pricing data. GAO did not agree that there had been adequate price competition and recommended that the Secretary of Defense:

Consider whether the Government is legally entitled to price adjustments under the terms of the contracts.

Review the rental rates negotiated on a noncompetitive basis under other contracts for supplying barges, tugs, and other vessels in Vietnam; ascertain whether towing costs that had already been provided under previous contracts were included in the rental rates; and, if so, determine whether the Government is legally entitled to price adjustments.

Negotiate towing costs, in future contracts, as a separate item to be provided once for each piece of equipment in continuous service.

The Army stated that it would review the contracts and that the solicitations for 1971 contracts would require the proposals to show transportation (towing) costs as a separate item. (Report to the Congress, B-167714, May 6, 1970)

99. Use of Value Engineering Clauses in Contracts.—In 1963 the Department of Defense established a value engineering program—defined as a systematic and creative effort to simplify the design and manufacture of products in order to obtain the lowest overall cost to the Government—to provide for sharing with contractors the cost reductions resulting from changes to specifications and other contract requirements. The program is implemented by the use in contracts of one of two value engineering clauses—an incentive clause or a program requirement clause. The incentive clause merely encourages the contractor to submit value engineering change proposals. The program requirement clause obligates the contractor to conduct value engineering at an agreed upon level of effort for which the contractor is fully reimbursed. These clauses offer the contractor a share in cost reductions ensuing from approved change proposals. The Department of Defense reported that its share of cost reductions through value engineering was about \$170 million for the five fiscal years through 1968.

Many of the contracts with the incentive clauses had not produced the desired results in that some contractors were not stimulated to develop proposals to reduce costs even though they would share in the cost savings. GAO expressed the belief that new techniques were needed to stimulate the contractors and that the value engineering performance of contractors could be improved if the Department of Defense officials identified the specific programs most susceptible to value engineering and suggested to contractors that they concentrate their efforts on those programs.

The administration of the value engineering program by the military departments could be improved and strengthened by:

Processing of contractors' value engineering proposals on a more timely basis.

Informing the contractors in clear and concise language of the reasons for rejecting proposals.

Modifying certain policies which tend to restrict value engineering effort.

Incorporating accepted value engineering product changes promptly into concurrent related contracts.

Evaluating results of value engineering effort under clauses requiring contractor effort so that potential cost savings may be applied in other contracts or in logistics support areas.

GAO proposed that the Secretary of Defense establish guidelines for identifying contracts or programs having substantial value engineering potential and es-

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establish savings goals for these programs to stimulate participation by contractors. A number of other proposals to improve administration of the value engineering program were also made.

The Department of Defense advised that instructions would be revised to correct many of the problems discussed in GAO's report. The action being taken by the Department should contribute significantly to improvement in the effectiveness of the program. (Report to the Congress, B-165767, Aug. 25, 1969)

100. Contractor's Unwillingness To Negotiate on Basis of Prior Cost Experience and Probable Production Costs.—In 1966 the Army procured, at a contract price of \$3.5 million, eight rock-crushing plants for use in Southeast Asia road construction activities. The procurement was noncompetitive and subject to the requirements of the Truth-in-Negotiations Act (Public Law 87-653) for submission of certified cost or pricing data. GAO reviewed the reasonableness of the price negotiated in relation to available cost information.

At the time of negotiations, cost information was available to the Army that the price proposed by the contractor was too high—by about \$528,000. The contractor would not agree, however, to any discussion of the cost elements supporting its proposed price and no reduction was negotiated. The Army contracting officer was aware that the price was higher than indicated by available cost or pricing data and, under procurement regulations, was required to refer the matter to higher authorities in the Army before agreeing to the contract price. This, he did not do. In addition, it appears that the Government's right to a price adjustment under Public Law 87-653 has been impaired since the price was not negotiated on the basis of cost information submitted by the contractor.

The contractor stated to GAO that it believed the contract price was fair and reasonable and that it had negotiated fully and completely with the Army.

Although the price exceeded the cost of performance by about 35 percent, the contractor sought to avoid a determination of excessive profits by the Renegotiation Board on the grounds that rock-crushing plants qualify for an exemption in the Renegotiation Act with respect to sales of new durable productive equipment. The Renegotiation Board denied the exemption. However, the contractor can appeal the matter to the Tax Court. GAO recommended that the Secretary of Defense emphasize to procurement officials the need for reporting to top officials, as required by Defense

regulations, proposed procurement when the prices are considered to be unreasonably high and the contractor refuses to negotiate. Had the regulations been followed in this case, top Army officials would have been alerted to consider whether other actions were desirable before the price was agreed upon.

The Army stated that the requirement for contracting officers to report to higher authority situations where contractors refuse to negotiate was not applicable in this instance because the contracting officer did not anticipate at the time a letter contract was awarded the problems which arose 3 months later during the price negotiations. Subsequently, however, Department of Defense officials stated that this requirement would be applicable whenever a final price is negotiated. (Report to the Congress, B-165006, Jan. 9, 1970)

101. Improper Practices.—In the procurement of food services at the U.S. Merchant Marine Academy, the Maritime Administration, Department of Commerce, had not followed the policies and procedures prescribed by the Federal Procurement Regulations regarding the type of contract used, selection of contractor, and contract renewal options.

Maritime negotiated the food service contract for the school year ended June 30, 1967, and rather than obtaining competitive bids, accepted prices for some items in the contract without negotiations, and did not adequately review the cost data provided by the contractor.

The contract for the school years ended June 30, 1968 and 1969, which related to four categories of meals, was not awarded to the low responsible bidder. Instead, Maritime accepted the low bid on the major category and then negotiated with this bidder for prices on the other categories. The ultimate contract price for the four categories was \$5,000 higher than the original low bid. In GAO's opinion, Maritime's action was not in accord with regulations and was not justified by the reasons given.

Also, awarding the contract for a 2-year period was improper because of the statutory provisions against multiple-year contracts. A provision requiring mutual agreement to extend or renew the contract instead of affording the Government the sole option for extension was improper because any such extension would constitute a new negotiated procurement and would not be an exercise of a renewal option.

GAO recommended that actions be taken to preclude recurrences of the cited situations. (Report to

the Assistant Secretary for Administration, Commerce, June 30, 1970)

102. Government-Furnished vs. Contractor-Furnished Fuel on Dredging Contracts.—The Corps of Engineers (Civil Functions), Department of the Army, obtained most of the diesel fuel and other petroleum products needed to operate Corps-owned dredges from suppliers under contracts with the Defense Fuel Supply Center. Corps' dredging contractors were required, however, to furnish fuel and other petroleum products needed in their operations.

GAO estimated that, on three contracts awarded by the New York District Office, the Corps could have saved about \$29,000 if it had furnished the approximately 2 million gallons of diesel fuel used on these contracts. About 69 million gallons of diesel fuel were used for the Corps' contract dredging operations in fiscal year 1968.

GAO was informed that, in accordance with its recommendation, instructions had been issued to consider the feasibility of furnishing fuel to Corps dredging contractors. (Report to the Secretary of the Army, B-161330, July 14, 1969)

103. Evaluation and Selection of Architect-Engineer Firms.—The District of Columbia Government's procedures for the selection and employment of architect-engineer (A-E) firms require the maintenance of up-to-date files on acceptable firms, that the performance of the firms be rated when the requirements under the A-E agreements are completed, and that their performance be rated again when facility construction is completed. These files are to be used to prepare lists showing detailed information on A-E firms for consideration by an architect-engineer selection board (A-ESB) which is responsible for recommending the order of priority in which the firms will be considered for employment.

Review of the list of 189 A-E firms that was used at an A-ESB meeting GAO attended disclosed that current information was not made available on all A-E firms being considered, board members were not provided with complete information, and performance ratings were not prepared in accordance with established procedures.

Subsequently, District officials informed GAO that procedures have been adopted which will assure that current information will be available on all A-E firms being considered, that A-ESB members will be provided with complete information, and that perform-

ance ratings will be prepared in accordance with established procedures. (Report to the Commissioner, District of Columbia Government, B-118638, Jan. 7, 1970)

104. Procurement of Currency Paper.—In response to GAO's proposal in a prior report, the Bureau of Engraving and Printing, Department of the Treasury, made a commendable but unsuccessful effort to encourage suppliers in addition to the previous supplier to bid on Bureau currency paper requirements. However, cost reductions totaling \$555,755 will be achieved over a 4-year period because the Bureau changed from an annual to a 4-year contract beginning in fiscal year 1970 and the long term major supplier—the only bidder—was awarded a contract at a lower unit price than the fiscal year 1969 unit price.

In the absence of adequate and effective competition, however, there is a need for the Bureau to have better assurance as to the reasonableness of the prices for currency paper. GAO suggested that, if there is an absence of adequate and effective competition in the future, the Bureau negotiate a contract on the basis of the supplier's certified cost or pricing data in accordance with the provisions of the Code of Federal Regulations. This procedure is generally accepted and extensively used where there is insufficient active competition to effectively insure the reasonableness of the price.

GAO was informed that the Bureau intended to adopt this suggestion in future procurements of currency paper. (Report to the Congress, B-114801, Mar. 26, 1970)

105. Use of Contracts Containing Incentive Provisions.—The National Aeronautics and Space Administration (NASA) incorporated incentives amounting to \$26.2 million into two launch vehicle stage production contracts awarded by its Marshall Space Flight Center in order to accelerate delivery of the stages to be used in the Apollo program. In GAO's opinion, NASA could have avoided using incentives to obtain early delivery of the stages without adversely affecting the Apollo program because:

Early delivery of the stages could have been obtained without additional payments to the contractors.

Delivery of the stages for certain vehicles ahead of schedule was not compatible with an earlier decision to delay delivery of these stages.

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Additional time for testing and solving prelaunch checkout problems, which NASA stated it was attempting to obtain through the use of schedule incentives, was already available.

GAO noted that the schedule incentives negotiated by NASA for the second group of stages procured under these two contracts provided only for the assessment of penalty against the contractors if the stages were delivered late.

NASA stated that it strongly believed that the early delivery incentives included in the first group of stages reduced costs, permitted mission adjustments, and would keep total program costs to the minimum obtainable.

GAO noted, however, that in October 1969 NASA and the Department of Defense issued a joint incentive contracting guide that describes improved incentive contracting techniques. With respect to schedule incentives, the new guide suggests that, usually, it is not advisable to provide rewards to advance delivery schedules and that, generally, penalty-only incentives are the most appropriate means of insuring delivery on schedule. GAO believes that the new guidelines, if properly implemented, should preclude a recurrence of the situation described in the report. (Report to the Congress, B-161366, Feb. 25, 1970)

Facilities, Construction, and Leasing

106. Construction of Facilities Without Disclosure to the Congress.—The Department of Defense (DOD) managed 98 active Government-owned, contractor-operated industrial plants originally costing \$2.2 billion for land and improvements. GAO noted that large additions were being constructed at some of these plants. Accordingly, GAO reviewed the procedures and controls relating to expansion and replacement of industrial plants and examined into acquisition of facilities constructed between late 1965 and 1968 at two Air Force and three Navy installations.

Each major addition to facilities at military installations requires congressional review and approval and is paid for out of military construction appropriations. However, major additions to facilities at Government-owned, contractor-operated defense plants are normally financed with funds from procurement or from research, development, test and evaluation (RDT&E) appropriations. Under the latter procedure, proposed acquisitions are included as separately identified facility

categories in procurement or RDT&E budget requests submitted to the Congress, and the projects are sometimes individually presented to the congressional committees concerned.

GAO found that in some cases DOD had authorized contractors operating Government-owned plants to provide the financing for new facilities and to recover the costs involved through overhead charges against Government supply and research and development contracts over a period of years—usually 5 years. Title vested in the Government when the facilities were built. Proposed acquisition of facilities under this method was not specifically identified in budget presentations to the Congress.

At the five installations reviewed, new buildings costing \$31 million had been acquired by the Air Force and the Navy under supply and research and development contracts, and financing was provided by the contractors who were being reimbursed over a period of years. The legality of these indirect acquisitions was not questioned but the lack of disclosure of such acquisitions to the Congress was pointed out as being inconsistent with the procedures applicable to construction projects funded directly by the Government under military construction appropriations or under procurement or research and development appropriations.

There are no specific provisions in DOD procurement regulations covering facility acquisitions by the Government through contractor financing and subsequent reimbursement of the contractor under a supply or research and development contract. Consequently DOD does not require reporting of such projects to the Congress in the budget process, nor does it provide guidance as to when this method of financing should be used.

GAO did not inquire into the relative economy of acquiring facilities indirectly through contractor financing as compared with acquiring facilities under the traditional method of direct financing by the Government. With respect to the financing charges, however, GAO noted that interest on the contractors' investment in the facilities was not charged to the Government. Also, the profit earned by the contractors on the facility costs charged as overhead over the amortization period appeared to be less than the interest cost the Government would have incurred if it had initially paid for the construction.

GAO recommended that the Secretary of Defense take action to revise DOD's budgetary procedures, as appropriate, to effect full disclosure in applicable

budget submissions to the Congress of all proposed expenditures from procurement and RDT&E appropriations, either directly or indirectly, for construction of Government-owned facilities. GAO recommended also that, if it is deemed desirable to have contractors provide initial financing for Government-owned industrial facilities, the Secretary of Defense have the Armed Services Procurement Regulation (ASPR) revised, as necessary, to (1) provide clear criteria concerning when this method of financing should be employed and (2) spell out the controls to be exercised.

DOD advised GAO that it was reviewing its current budget policies and procedures to determine what changes may be necessary to insure disclosure of industrial facilities acquired indirectly through other basic contracts and that it was considering whether ASPR should be revised to contain guidance in this area.

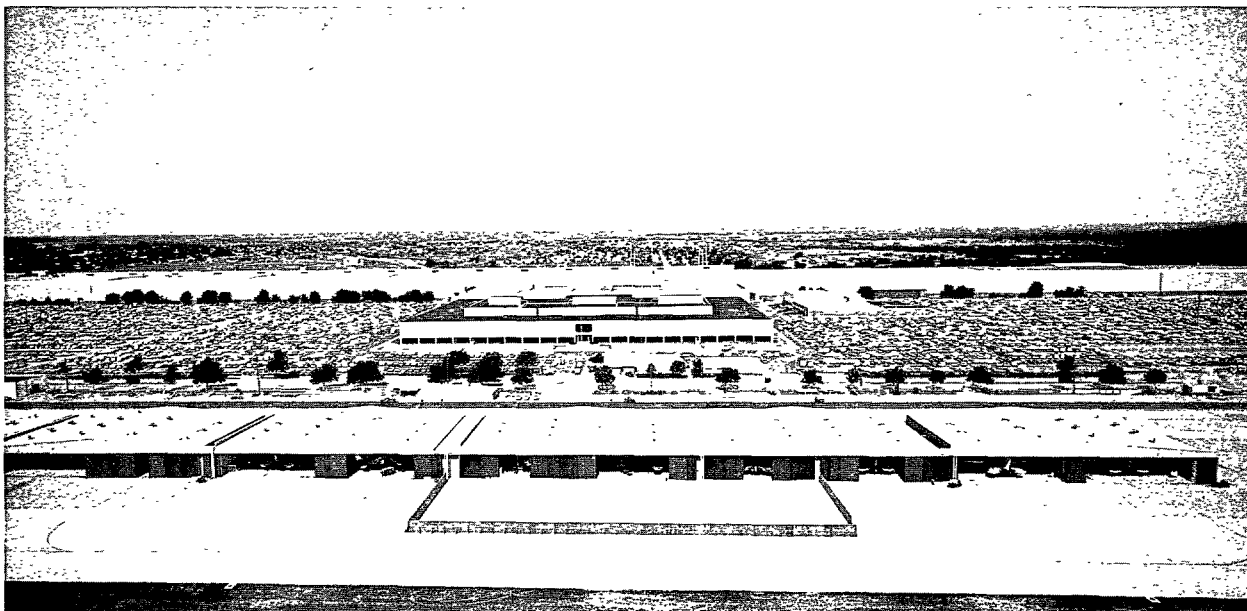
The House Committee on Appropriations, in its report accompanying the Department of Defense Appropriation Bill for fiscal year 1970, cited GAO's findings and stated that the committee desired that in the future all proposed major improvements to, and construction of, Government-owned facilities funded in any manner with procurement and research, development, test, and evaluation appropriations be clearly identified in budget requests. (Report to the Congress, B-140389, Jan. 21, 1970)

107. Lease-Construction of Facilities in Italy.—

Under the lease-construction method of acquiring facilities, the lessor agrees to construct a building or buildings in accordance with general guidelines prepared by the lessee. The Navy has acquired a considerable number of buildings under this method for the use of the Naval Support Activity in Naples, Italy. Rents for these buildings were about \$900,000 in fiscal year 1969. The Navy plans to increase its leasing in future years. GAO examined into the Navy's use of the lease-construction method for acquiring these facilities.

Acquisition of facilities in foreign countries through lease-construction has certain advantages and disadvantages compared with acquisition through the military construction program. Therefore the major factors affecting acquisition of a facility should be thoroughly reviewed and documented prior to selection of a particular method.

The Navy established a policy in 1956 of acquiring facilities in Naples exclusively by leasing with no consideration being given to acquisition through the military construction program. The Navy had no indication in its files that it had considered estimated costs of construction, estimated appraised values, local rental rates, or other factors in establishing rental rates for the leased facilities.



An example of a major addition to the facilities of a Government-owned plant which was not specifically identified in budget presentations to the Congress.

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The leased buildings were built to lower standards than U.S. military specifications and contained numerous deficiencies in design, workmanship, and quality of materials. Also, the lessor's responsibility for maintenance was not clearly established. This resulted in disagreements as to who should bear the cost of maintenance and in lengthy delays in having the work done.

GAO suggested that:

The Navy's procedures for acquisition of facilities by lease-construction be revised to provide for consideration of acquisition through the military construction program.

Records of future negotiations for lease-construction projects contain full documentation of factors considered in establishing rental rates.

The Secretary of the Navy issue instructions providing additional guidance for entering into and administering lease-construction contracts.

The Navy withhold a sufficient amount from rental payments for the Naples complex to compensate for construction deficiencies and for extraordinary maintenance that the Navy had to perform as a result of the failure of the lessor to make required repairs.

The Assistant Secretary of the Navy (Financial Management) agreed, in general, with GAO's conclusions and agreed to take appropriate action. (Report to the Congress, B-167807, Jan. 6, 1970)

108. Engineering and Design Effort in Military Construction Programs.—GAO reviewed the engineering and design effort, expended in connection with proposed construction of military facilities, where the results of the effort were not used in connection with actual construction and the effort could therefore be considered "lost." The review was directed to the basic causes of lost engineering and design effort and covered 72 selected projects which had indications of lost effort.

Of the total design cost of \$6.7 million for the 72 projects, about \$2.6 million represented lost effort. The \$2.6 million included costs of about \$800,000 that could have been avoided and about \$650,000 for projects that could not be constructed because construction funds were not appropriated.

The basic causes of lost effort were inadequate preliminary planning and insufficient coordination between the using activity and the design agency. GAO pointed out the need for (1) improved preliminary planning by the installations requiring the facilities and (2) closer coordination between the installations and

the design agencies before initiating design work and throughout the design phase. GAO also suggested that the design agencies of the military departments strengthen their procedures for the identification, accumulation, and reporting of lost engineering and design effort.

The Department of Defense stated that each of the military departments had taken steps to improve preliminary planning and to provide closer coordination between the user-installation and the design agency. The Department stated further that it would develop necessary procedures for identifying, accumulating, and prompt reporting of lost engineering and design effort. (Report to the Congress, B-133316, Oct. 22, 1969)

109. Determining Requirements for Mess Hall Facilities.—GAO made a review of the policies, procedures, and practices of the Department of Defense in determining requirements for mess halls for enlisted personnel. The review was directed toward examining the utilization of existing mess halls and the effectiveness of the planning and determination of requirements for new mess halls.

The criteria used by the military departments in computing requirements assumed that 85 percent of the enlisted personnel to be billeted in barracks on an installation would eat at the mess halls. At the five locations GAO visited, actual use of the mess halls was far less than 85 percent. Also the seating capacity of mess halls generally had been based on a 60-minute or 90-minute meal serving period, reflecting an average turnover time of 16 minutes a seat. In practice, the serving period was sometimes longer; thus the effective capacity of the mess halls was increased.

Proper consideration of the actual utilization of existing mess halls at the installations visited would have (1) prevented the unnecessary construction of two mess halls which cost about \$1.4 million, and (2) permitted a substantial reduction in the cost of two other mess halls which cost about \$2.3 million.

GAO suggested that:

The Department of Defense revise its criteria to provide that each installation consider the actual experienced rate of utilization of its mess halls in computing requirements for new mess halls.

The length of the meal serving period be reviewed, when computing requirements for mess halls, to insure that it is as long as possible, consistent with installation mission requirements, and that the capacities of existing mess halls be computed on the

basis of the length of the meal serving period thus determined.

Local installation officials consider consolidating the operation of mess halls where the utilization of the existing mess halls is considerably below design capacity.

The military departments reconsider their approved, but incomplete, mess hall projects to determine whether it is desirable and feasible to cut back ~~or~~ eliminate the projects on the basis of possible better utilization of existing facilities.

The Department of Defense agreed, in general, with these suggestions and advised that:

It had adopted plans for collecting data relating to mess hall utilization and for developing revised criteria.

It planned to develop additional controls and mandatory review procedures to insure compliance with existing policy for consolidation or centralization of food service facilities.

It had requested the military departments not to make any further contract awards for approved mess halls pending revalidation ~~of~~ the projects.

(Report to the Congress, B-167400, Nov. 5, 1969)

Procurement Procedures and Practices

110. Processing Small Purchase Transactions.—As of June 30, 1968, the Navy Aviation Supply Office (ASO) was responsible for the management of over 323,000 different aeronautical spare parts and assemblies. During fiscal year 1968 it processed about 93,000 small purchase transactions—purchases under \$2,500 each—totaling about \$72 million. About 70 percent of these transactions were processed by automation. GAO reviewed the policies, procedures, and practices followed by ASO in operating the automated procurement system to determine whether more effective use of the capabilities of the system could be realized in processing small purchase transactions.

GAO observed that the system could be improved by programming the automated equipment to:

Assist buyers in making price analyses of small purchases.

Solicit quotations from all known supply sources.
Consolidate requirements.

Make maximum use of basic ordering agreements (BOA's). (A BOA is a written understanding with

a contractor which describes goods or services that might be purchased from the contractor and provides a method for pricing them.)

Process many of the small purchases that continue to be processed without the aid of automation.

Also noted was a lack of comprehensive reviews of the automated system by audit groups of ASO, Navy, or Department of Defense.

During GAO's review ASO made changes in its automated system which should help insure that requirements for like items are consolidated and that sole-source requirements are placed, as applicable, under existing BOA's.

GAO suggested that ASO (1) consider programming the automated system to perform price analyses, to solicit all known supply sources, and to process other small purchases, and (2) provide for a periodic review of the operation of the system so that management can be informed of problem areas. In view of the present and potential use of automated procurement systems by other activities and the need for improvements in the existing system at ASO, it was also suggested that the Secretary of Defense establish programs to monitor the implementation and improvement of automated procurement systems.

The Navy and the Department of Defense advised GAO of actions taken or planned by them which were generally responsive to GAO's suggestions. (Report to the Congress, B-162394, Dec. 17, 1969)

111. Type of Paper Used in Copiers.—The type of duplicating paper which the Department of Housing and Urban Development (HUD) was using in its copiers was substantially more expensive than the type of paper used by two other departments of the Federal Government in the same type of copier. GAO estimated that the use of less expensive paper at HUD headquarters would result in annual savings ranging from \$7,700 to \$10,000, depending on the type of paper used. Also, savings might be realized at HUD's field offices.

GAO was informed in March 1970 that a test conducted by HUD showed that a more economical type of paper than that previously used would function satisfactorily in HUD's copiers and that it would be used. (Report to the Assistant Secretary for Administration, HUD, Dec. 29, 1969)

112. Use of Long Term Warranty Agreements.—The Stanford Linear Accelerator Center is a large scientific laboratory operated by Stanford Uni-

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versity for high energy physics research under a cost-type contract with the Atomic Energy Commission (AEC). The Center's accelerator necessitated the development of new, highly complex klystron tubes. Under warranty agreements negotiated with two tube suppliers, the Center paid each contractor fixed amounts for each hour of tube use, in exchange for which the contractors agreed to repair or replace tubes which failed during operation. The hourly rate was reduced after a tube had operated for a specified number of hours.

When the warranty agreements were negotiated, only limited operating data were available as a basis for estimating the life of the Center's klystron tubes. After further operating experience was obtained, it became apparent that tube life was substantially greater than had been anticipated. Therefore, it appeared that total payments made by the Center under the warranty agreements would average substantially more for each tube repaired or replaced than was anticipated at the time the agreements were entered into.

Even though only limited operating data were available at the time the agreements were negotiated, the Center did not attempt to negotiate agreements containing some means of limiting Government payments, other than the fixed price for each hour of tube use, in the event that tube life proved to be substantially longer than expected. Further, the Center did not obtain certified cost or pricing data from the contractors showing the bases for the amounts agreed upon.

Under the terms of the warranty agreements, the contractors were required to replace failed tubes with repaired or new tubes within 30 days after their return. However, one contractor had replaced only 28 of 75 failed tubes. In response to GAO's proposal, the Center negotiated an agreement with the delinquent contractor to discontinue warranty payments until the backlog of unreplaced tubes was substantially reduced.

AEC also agreed that, in future klystron tube procurements, every effort would be made to negotiate appropriate limitations on total payments if warranty agreements were decided upon or if such limitations were appropriate for an alternative method of procurement which might be selected. Both AEC and

the Center agreed to make every effort to obtain cost and pricing data for use in evaluating proposed prices. (Report to the Chairman, AEC, B-168982, Mar. 31, 1970)

113. Direct Procurement of Fixed Equipment.—The District of Columbia Government's practice of generally procuring fixed equipment to be installed in newly constructed schools through construction contractors has not been in consonance with the practices of certain other large metropolitan school systems nor with those of nearby communities. Officials of these school systems indicated that economy and ease of installation were factors considered in determining the items of equipment to be procured directly.

GAO believes that the direct procurement of selected items of fixed equipment from suppliers would offer an opportunity for savings to the District by (1) avoidance of the construction contractors' profit and overhead involved in their handling of the equipment and (2) the potentially more favorable conditions of purchase that may be obtained by the District.

District officials informed GAO that they were making a study to identify those items of equipment which could be procured more economically by the use of a direct contract. (Report to the Commissioner, District of Columbia Government, B-118638, Dec. 5, 1969)

114. Use of Government Sources of Supply.—The National Science Foundation's contract with an association of universities for the operation of the National Radio Astronomy Observatory at Green Bank, W. Va., requires the contractor to utilize Government sources of supply in all procurements insofar as is consistent with the Government's interest. Although the Observatory purchased many items through the General Services Administration (GSA), it used commercial sources of supply for several procurement transactions where savings could have been realized through use of GSA supply sources.

The Director, NSF, advised GAO that NSF would insure that the Observatory made maximum use of GSA supply sources and that NSF's audit office would be instructed to follow up on this procedure during its scheduled visits to the Observatory. (Report to the Director, NSF, Mar. 31, 1970)

RESEARCH AND DEVELOPMENT

Development of Major Weapon Systems

115. Selected Major Weapon Systems.—GAO examined the status of selected major weapon systems because of the large acquisition costs involved and because of the interest of Congress in the acquisition of major defense weapon systems.

The Department of Defense (DOD) did not maintain a central file on the total number of systems being acquired or their costs. Data furnished GAO as of June 30, 1969, by DOD showed that a total of 131 major programs were in various phases of the acquisition process and that their total costs were estimated to aggregate about \$141 billion. Through June 30, 1969, about \$55 billion of this amount had been funded to the program by DOD.

On the basis of a review of the status of 57 major weapon systems as of June 30, 1969, GAO concluded that :

There was considerable cost growth on many current development programs and the cost growth was continuing.

There were significant variances, existing or anticipated, between the performance originally expected and that currently estimated for a large number of the systems.

There were slippages, existing or anticipated, in the originally established program schedules of from 6 months to more than 3 years on many of the systems.

GAO obtained sufficient detail on only 38 of the 57 systems to permit a comparison of costs estimated at different points in time. The current cost estimates through program completion for those 38 systems were \$62.9 billion or about 50 percent higher than the original planning estimates of \$42 billion. Reasons most frequently cited for costs growth were inflation, capability increases, contract cost increases, quantity increases, and poor initial estimates.

GAO concluded that one of the most important causes for cost growth is related to decisions to commence acquisition of a weapon system before adequate

demonstration that the prescribed prerequisites for advancing into contract definition phase have been satisfied. Another significant cause for cost growth can be traced to the initial documents which define the system mission requirements and technical performance specifications, including the estimates of costs to achieve them.

In February 1968, DOD established the Selected Acquisition Reporting (SAR) system as a means of obtaining information on the progress of selected acquisition programs and comparing the progress with the planned technical, schedule, and cost performance. GAO concluded that the system, in concept, represented a meaningful management tool but that, in common with most new management systems, it had certain shortcomings. DOD recognized the need for improvement and GAO made specific suggestions to DOD for its consideration in refining the system.

GAO made no recommendations in its report. However, during the review, it made many suggestions for the improvement of acquisition management and DOD took action on the suggestions. A new instruction on the SAR system, issued in December 1969 and revised in June 1970, significantly improved upon the data required to be included in the Selected Acquisition Reports and should enhance their usefulness. Also, a Defense Systems Acquisition Review Council was established to insure that prerequisites for each phase of the acquisition cycle are met before programs progress into subsequent phases. (Report to the Congress, B-163058, Feb. 6, 1970)

116. NIKE-X Antibalistic Missile.—The NIKE-X program, which evolved from development of the NIKE-ZEUS antibalistic missile (ABM) system, started in 1963. In September 1967 the Secretary of Defense directed (1) development and deployment of a SENTINEL (now called SAFEGUARD) version of NIKE-X and (2) continued development of more advanced ABM systems. At that time, NIKE program funding, excluding separately funded Atomic Energy Commission costs, totaled about \$4 billion.

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GAO found certain management weaknesses which may continue in the current programs for development of the SAFEGUARD and of advanced NIKE-X capabilities. A basic problem concerned the adequacy of the Government's control over the prime contractor's technical and administrative management of the weapon system development program. Specifically, GAO observed a need for improvement in (1) the selection of suitable contracting techniques—to balance contract performance and schedule incentives and to avoid long term contractual commitments when the development program involves changing technical requirements and funding uncertainties, (2) evaluation of proposed development tasks and cost estimates, and (3) identification of potential program slippages and cost overruns.

GAO also observed (1) contractual obligations for facilities and services before reasonably firm requirements had been established and (2) records of multi-million-dollar negotiations between the prime contractor and major subcontractors that were inadequate for **purposes of audit and** review by responsible Government officials.

In response to GAO's observations and suggestions, the Army stated that actions were planned or had been taken to (1) require the prime contractor to furnish more adequate cost data in support of its proposals, (2) continue its efforts to improve its techniques for evaluating contractor proposals, (3) revise the prime contractor's Program Evaluation and Review Technique (PERT) procedures so that computerized programs promptly identify slippages in development and production activities, and (4) obtain consideration by the Armed Services Procurement Regulation Committee that records of the principal elements of negotiations be contractually required and retained for initial awards of, and revisions to, multi-million-dollar subcontracts negotiated under cost-reimbursement-type contracts.

The Army and the prime contractor generally disagreed with GAO's observations and suggestions concerning (1) the use of target costs incentives rather than expenditure limitations to balance performance and schedule incentives, (2) the need to examine into the criteria being used in awarding multiyear development subcontracts, and (3) the incurrence of contractual obligations commensurate with reasonably defined requirements.

GAO recommended that the Secretary of Defense (1) monitor the Army's progress in those areas where

GAO's suggestions are being implemented and (2) consider the need for action to avoid or minimize other problems described in this report. On March 26, 1970, the Secretary of Defense advised the Comptroller General that the report had proven to be most valuable in pointing out potential problem areas and providing suggestions for improvement in system management. (Report to the Congress, B-164250, Nov. 28, 1969)

117. Sheridan Tank.—The Sheridan is a tank-like weapon system intended to be used (1) as the main reconnaissance item for armor, infantry, and airborne operations, (2) **as** the main assault weapon for airborne operations, and (3) for combined arms teams not using the heavier main battle tank.

The Sheridan's turret contains a 152mm gun-launcher. The 152mm ammunition would include a completely combustible cartridge case and primer which would eliminate handling of expended cartridge cases—a new weapon concept. The gun-launcher is also capable of firing the Shillelagh missile. The gun-launcher, ammunition, and missile, collectively, are called the Shillelagh weapon subsystem.

GAO reviewed the development and production of the Sheridan weapon system because there were delays in making this important Army combat item available to the operational forces and because over \$1 billion was involved in this program.

GAO also reviewed the M60A1E1 and M60A1E2 tank systems because of Army plans to apply the Shillelagh weapon subsystem to the M60 tank. GAO also noted that the Shillelagh weapon subsystem was planned for use in the main battle tank (MBT-70) program.

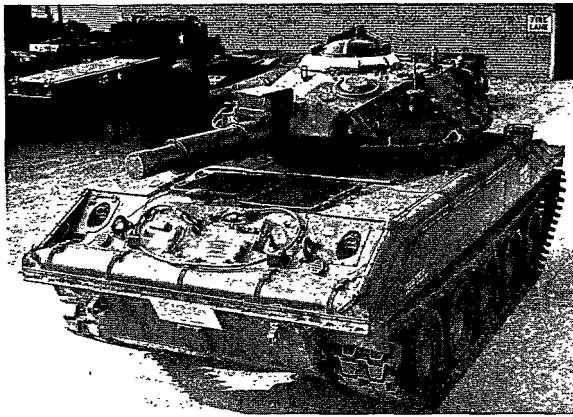
The Army **has** purchased Sheridans, M60A1E1 tank turrets, and M60A1E2 tanks which would require substantial modification before they would be fully suitable for operational use. Appreciable quantities were authorized for production despite known development deficiencies in essential components. As a result, many of these weapons were put into storage instead of being added to the combat effectiveness of the Army.

GAO believed this situation occurred because of:

The absence of specific and agreed upon ammunition performance requirements early in the development program.

Insufficient testing prior to limited production.

The development of portions of a weapon system being out of phase with each other.



Sheridan Tank

The desire to minimize the possibility of program fund restrictions as a major factor in approving production authorizations.

The failure to take timely actions to limit or terminate weapon production where warranted.

Delay in initiating backup development effort for a deficient weapon system component.

The commitment of unproven weapon concepts to other systems prior to acceptability in the initial application.

GAO recommended a series of actions for application to current and future development programs to increase management effectiveness and to deploy acceptable weapon systems sooner, namely, that :

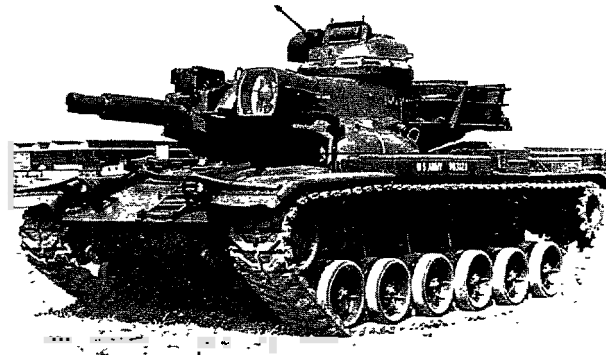
Sufficient testing be conducted before an item is released for limited production and that specific criteria be established as to the degree of testing necessary before this production can be justified.

Before a weapon system is made a standard item and approved for full production, final service tests show conclusively that the overall system is suitable for troop use.

Timely backup development be conducted in essential portions of a system experiencing continuous development difficulty to insure availability of the system for scheduled deployment.

A new weapon concept, which pushes the state of the art, not be applied to other weapon systems until it has been fully developed and proven acceptable for operational use in its initial application.

Existing Army regulations be suitably implemented to insure that performance requirements for weapon systems and subsystems be specified and agreed to as early in the development program as practicable and that these requirements be subject



M60A1E2 Tank

to continual revalidation by the developing, testing, and using agencies as development proceeds.

The feasibility of all prime portions of a weapon system be demonstrated prior to committing an overall system to the final phases of development which are to be the basis for production.

The Army concurred in most of these proposals and stated that major actions or improvements had been initiated which should reduce deficiencies in future program management. However, the Army disagreed with some of the proposals. Since GAO believed that further action was needed, it was recommended to the Secretary of Defense that Army regulations be revised or established to provide that:

Before a weapon system or subsystem is approved for full production, tests should show satisfactorily that the overall weapon system, including all essential components, is suitable for operational use.

Before a weapon system or subsystem is approved for limited production, it should satisfactorily pass a suitable engineering test performed by a responsible testing agency.

Development of a new weapon concept must be completed and proven acceptable by suitable tests for troop use in its initial application before it is committed to additional weapon systems.

The Army also stated that a major assessment of the main battle tank (MBT-70) program had been conducted and that the development, testing, and production sequence as well as schedules were in general consonance with GAO's proposals; and that production of the Shillelagh weapon subsystem would not be initiated for inventory for the MBT-70 and M60A1E2 tanks until these tanks were suitable for troop use.

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Several committees and many Members of the Congress have expressed a strong interest in major weapon systems and how their development and procurement could be improved. To enable the Congress to exercise appropriate legislative controls over the funding of major defense systems, GAO suggested that the Congress might wish to require that (1) determination be made by the Secretary of Defense, prior to authorizing production of a new system or major modification of an existing system, that all of its significant components have satisfactorily met all prescribed developmental tests and (2) in any case where the Secretary of Defense considers that authorization of production is essential even though not all developmental tests have been satisfactorily completed, a certification to that effect be furnished by the Secretary of Defense to the appropriate congressional committees—such certification to include the reasons for authorizing concurrent development and production and the status of development of each significant component. (Report to the Congress, B-163058, Nov. 17, 1969)

118. Deep Submergence Rescue Vehicle.—The deep submergence rescue vehicle (DSRV) is a 35-ton submersible designed for rescue of personnel from a disabled submarine. When needed, the DSRV would be transported by aircraft to a seaport near the disaster and carried to the site by a supporting ship or submarine. The Navy had purchased two DSRVs and was planning to purchase four additional DSRVs. GAO examined the cost of, and the estimated effectiveness to be derived from, the four additional DSRVs the Navy intended to buy.

The program had significant cost overruns and delays in development. In 1964 when the program was first recommended, the Navy estimated that a rescue system including 12 DSRVs could be developed in 4 years at a cost of about \$36.5 million, including the cost of operation for 1 year. The Chief of Naval Operations reduced the recommended number of DSRVs from 12 to 6. However, by 1969 the Navy estimated that a rescue system including only 6 DSRVs would require 10 years to develop (1964 to 1974) and would cost about \$463 million. At the time of GAO's review, \$125 million had already been allocated to the program, \$31 million had been requested for fiscal year 1970, and \$307 million was estimated to be needed in fiscal years 1971 to 1974.

The Navy originally had envisioned cost reductions, when the DSRV system became operational, through the phasing out of an existing rescue system. The Navy

does not now plan to phase out the existing system and the anticipated cost reductions will not be realized.

Navy officials estimated that about \$200 million, of the \$307 million estimated to be needed for the program in fiscal years 1971 to 1974, applies to the four additional DSRVs. Annual operating cost, after fiscal year 1974, for the four is estimated at over \$17 million.

GAO's findings indicated that submarine disasters where rescue is possible are rare—there have been only two such disasters since 1928. Since two DSRVs apparently would provide sufficient rescue capability for any one disaster, the four additional DSRVs would only provide backup capability. In most cases the backup probably could be provided by other systems currently in use or being developed by the Navy.

GAO proposed that the Secretary of Defense evaluate the cost of purchasing and operating the four additional DSRVs in the light of their estimated usefulness. It was suggested that a prompt decision would be valuable since a determination that the additional DSRVs were not needed would halt further expenditures. GAO was advised that the Chief of Naval Operations had directed, on April 29, 1969, that a study be undertaken on a priority basis and that construction of the four additional DSRVs would not be undertaken until and unless their usefulness had been shown to justify the cost.

The Navy began its study in December 1969—8 months after it had been directed. Because of the delay, GAO recommended that the Secretary of Defense take steps to insure that the Navy conducts a meaningful study promptly to provide a suitable comparison of the probable usefulness of the four additional DSRVs in relation to their cost. On April 22, 1970, the Navy advised GAO that its policy was that no additional DSRVs would be procured until and unless their usefulness has been shown to justify their cost. (Report to the Congress, B-167325, Feb. 20, 1970)

Research and Development—General

119. Contractors' Independent Research and Development Costs Borne by the Government.—

Independent research and development (IR&D) is that part of a contractor's total research and development program which is not conducted under a direct contract or grant but is undertaken at the discretion of the contractor. In certain cases a general agreement is negotiated with the Government establishing a dol-

lar ceiling on the cost of IR&D which the Government will accept. Under policies of the Department of Defense (DOD) and of the National Aeronautics and Space Administration (NASA), the IR&D need not be related to current or prospective Government procurement. Under the policy of the Atomic Energy Commission (AEC), the IR&D cost is allowed only to the extent that it benefits the contract work. During 1968, major Government contractors spent about \$1.39 billion for IR&D, bid and proposal, and other technical effort. The Government paid for more than half of this amount—almost entirely under DOD and NASA contracts.

GAO made a review at nine plant locations of seven contractors and at several Government agencies and identified a number of significant problem areas in the Government's participation in IR&D programs. Many of the problems had been recognized for years but had not been resolved. GAO submitted a draft of its findings to the various agencies and contractors for review and comment and suggested that:

An interagency study be made to establish a Government-wide policy on participation in contractors' IR&D costs.

Consideration be given to establishing a more systematic method of disseminating to Government personnel information on proposed projects contained in contractors' IR&D programs to avoid unnecessary duplication of effort.

A study be made to determine whether the Government should receive royalty-free license rights to inventions arising from IR&D.

Uniform procedures be devised by DOD for administering IR&D costs.

In general, the agencies concurred, but opposition was expressed by the Council of Defense and Space Industry Associations.

Subsequent to GAO's study, legislation **was** enacted placing a limitation in the fiscal year 1970 Defense Procurement Authorization Act on the amount of IR&D, bid and proposal, and other technical effort costs to be allowed under negotiated Government contracts.

Both the Senate and House Committees on Armed Services planned hearings on the subject of IR&D and related costs. In conjunction with the hearings, GAO made the following suggestions for consideration of the Congress.

Because no clear distinction can be made between IR&D and other independent technical efforts, any

agreed ceilings on IR&D can be avoided through description of an IR&D project under a different terminology. Therefore, all independent technical efforts of contractors should be considered as a single entity.

Unlike the AEC and NASA, DOD has separate appropriations for procurement and for research and development activities and DOD's share of contractors' IR&D costs generally is absorbed by the procurement appropriation without identification as IR&D. If the Congress authorizes continuation of the present practice of allowing the inclusion of IR&D **as** an acceptable cost element in negotiated contracts, DOD should be directed to break out and identify separately in its appropriation requests the amount estimated as required for this purpose.

The policies followed by DOD and NASA on acceptability of IR&D costs differ from those of AEC which allows such costs **as** an element of overhead only to the extent that they provide a direct or indirect benefit to the contract work. A policy should be established by the Congress stating the extent to which, and under what circumstances, Government agencies should participate in the contractors' independent technical efforts.

GAO also identified several issues and alternatives which warranted consideration in determining the Government-wide policy, as follows:

Whether or not the present practice of allowing IR&D as an acceptable overhead cost in negotiated contracts should be replaced by a system of:

(1) Extending the use of direct research and development contracts to include those IR&D projects which the agency wishes to support fully or on a cost-sharing basis and thereby providing greater assurance that the desired work will be performed and that the Government will be entitled to information and royalty-free rights to any inventions arising therefrom.

(2) Authorizing an allowance for a stipulated percentage of the remainder of the contractor's total IR&D effort, irrespective of the source of the funding, either **as** a profit factor or through acceptance as a recognized overhead cost, as an incentive to contractors to continue technical efforts beyond those directly contracted with the Government.

Whether or not allowances to contractors for IR&D should be limited to projects that have a di-

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rect and apparent relationship to a specific function of an agency.

Whether or not, if IR&D allowances by DOD and NASA are continued on the present basis and are not related directly to current or prospective Government procurement, financial support should be provided to companies with similar capabilities, which do not hold Government contracts, as a means of supporting and strengthening industrial technology.

These suggestions were considered in hearings held in February and March 1970 before the Senate and House Committees on Armed Services. (Report to the Congress, B-164912, Feb. 16, 1970)

120. Construction of Research Facilities.—The Air Force constructed two research and development facilities—the Celestial Guidance Laboratory and the Laser Research Facility—for which it used funds appropriated for research, development, test, and evaluation purposes (RDT&E) rather than funds appropriated specifically for construction. The expenditures from the RDT&E appropriations for these facilities amounted to \$861,700. GAO sought to ascertain whether the Air Force had statutory authority to fund the construction from its RDT&E appropriations.

Under sections of the United States Code (10 U.S.C. 2353 and 10 U.S.C. 2674), RDT&E appropriations may be used for construction of certain *contractor-operated* research facilities and construction of projects costing \$25,000 or less. Since the facilities in question were *Government-operated*, as well as Government-owned, and their individual cost exceeded the \$25,000 limit, question arose as to whether the construction lay within the purview of 41 U.S.C. 12. This section of the code prohibits contracting for erection, repair, or furnishing of any public building or improvement that will bind the Government to pay a larger sum of money than the amount in the Treasury appropriated for the specific purpose. GAO believed that the two facilities constituted the erection of public buildings or improvements within the meaning of this section of the code and concluded that :

The buildings could not properly have been funded by RDT&E funds because those funds were not appropriated by the Congress specifically for construction purposes.

The Air Force did not have statutory authority to fund from RDT&E appropriations construction projects, of the type discussed in this report, in amounts over \$25,000.

GAO recommended that the Secretary of Defense take steps to insure that the Air Force construe and apply its criteria for using RDT&E funds, to finance the construction of facilities for research and development projects, in a manner consistent with decisions of the Comptroller General.

The Air Force took steps to review, at headquarters level, all proposed research and development construction projects costing in excess of \$25,000 in order to control more closely the use of RDT&E funds. (Report to the Congress, B-165289, Feb. 4, 1970)

121. Management of Primate Research Centers.—The National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), has established seven primate research centers, each hosted by a major university, which conduct a program of research on apes, monkeys, and other nonhuman primates that would be relevant to problems of human health. NIH had awarded grants for construction and operation of these centers totaling about \$64 million through June 30, 1968. GAO's review at four of the primate research centers, which had received NIH grant funds totaling about \$38 million, indicated that NIH had discharged its administrative responsibilities in a generally satisfactory manner but that certain conditions required management's attention to more effectively attain program objectives.

At one center the planned research activities were reduced in scope because, due to lack of funds, certain needed facilities had not been constructed. Only 11 of the 300 acres of land acquired with \$465,000 of Federal funds were being used for primate research purposes.

At another center a colony of great apes valued at about \$325,000 was not being fully utilized.

An important activity, the visiting scientist program, was not being actively pursued, and at one center 33 of the 46 individuals paid under the program did not meet the criteria established by NIH.

Also, management of the centers could be strengthened by (1) establishing procedures for reporting and disseminating information on certain technical innovations developed at the centers, (2) scheduling periodic audits of primate research center activities, (3) insuring that operating funds are not used to finance construction projects, since such use might result in the circumvention of the statutory matching-fund requirement to which construction funds are subject, and (4) negotiating an appropriate indirect cost rate with a grantee university.

After GAO advised NIH of the apparent need to clarify concepts and objectives of the visiting scientist program, NIH issued guidelines which should help improve administration of the program. Also, HEW agreed to take actions to implement other GAO recommendations for improving the administration of the primate research center program. (Report to the Congress, B-164031, Dec. 5, 1969)

122. Control Over Development of Facilities.—

At the request of the Joint Committee on Atomic Energy, GAO examined the manner in which the design and construction of the Janus reactor complex was managed by the Atomic Energy Commission (AEC) and by AEC's Argonne National Laboratory.

A number of problems and substantial delays were encountered during development of the complex and, ultimately, operations were discontinued so that necessary modifications could be made. GAO's review showed that a number of factors contributed to the delays, cost increases, and other problems associated with the development of the complex.

GAO proposed that, prior to initiating developmental projects involving the construction of costly new facilities with operating funds, Argonne develop and provide AEC with (1) a proposed schedule for completing the major steps involved in project development, such as detailed design, construction, and preparation of safety reports, (2) a description of the organization to be used in managing the project, including the scientific disciplines to be involved, and (3) the effects anticipated, from other work, on the laboratory's ability to keep the project on schedule. GAO proposed also that Argonne revise its internal accounting practices to better identify the total costs of future projects of this type.

In addition, GAO proposed that, to provide greater control over the development of reactor projects for AEC divisions that do not have expertise in reactor development, AEC establish as a formal requirement that project coordinators be appointed from the Division of Reactor Development and Technology with responsibility for supervising project development.

AEC and Argonne agreed to accept these proposals. (Report to the chairman, Joint Committee on Atomic Energy, R-165117, Feb. 18, 1970)

123. Selection of Research Experiments.—In a review of selected aspects of the management of the high energy physics research program of the Atomic Energy Commission (AEC), GAO noted additional

methods available for AEC program personnel to independently review and evaluate procedures used by the AEC-owned, contractor-operated accelerator laboratories in selecting experiments to be conducted.

Each of the accelerator laboratories included in this review had established program committees for the purpose of selecting those experiments to be conducted on its accelerator. These committees were composed of individuals representing accelerator users from AEC laboratories as well as from universities. Thus, the program committees, acting as bodies of specialists in the field of high energy physics research, substantially influenced the selection of, and emphasis placed on, the type of experiments conducted.

It appeared that the existing program committee system should provide for an effective method of selecting the most appropriate experiments to be performed at each accelerator from those proposed and that the broad spectrum of accelerator users represented on the committees should provide reasonable assurance against unnecessary duplication of research activities. AEC was not represented on these committees, however, and AEC officials generally did not attend committee meetings, even as observers. AEC, instead, used certain indirect monitoring procedures to maintain cognizance over the committees' actions.

In response to GAO's proposal, AEC agreed to attend as many program committee meetings as necessary to directly observe the procedures in use and to independently evaluate their effectiveness. (Report to the Chairman, AEC, B-159687, May 13, 1970)

124. Control Over Development of Data Analysis Systems.—In the review of selected aspects of the management of the high energy physics research program of the Atomic Energy Commission (AEC), GAO observed a need for greater control over the development of automated systems for analyzing experimental data.

The data analysis function associated with certain types of experiments at the AEC-owned, contractor-operated, high energy physics accelerator laboratories requires extensive facilities for scanning and measuring thousands and sometimes millions of photographs a year at each laboratory. This situation resulted in a strong motivation to automate the data analysis function, and the laboratories incurred substantial costs in developing various types of semiautomatic data analysis systems to accomplish this purpose.

According to AEC, each laboratory compared proposed devices and data analysis methods with those in

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existence, and AEC and the laboratories evaluated the advantages and disadvantages of proposed systems and system modifications before initiating costly development work on specific devices. AEC stated, however, that the laboratories generally did not document the comparisons and that AEC's review and approval of the development of proposed systems largely had been informal and undocumented.

AEC also pointed out that substantial gains in data analysis capability had occurred and that significant economies had been achieved due to the development of semiautomatic systems to replace manual systems. In view of the substantial capability now in existence, however, GAO believes that the incremental benefits resulting from improving present capabilities are not likely to be as dramatic as those that have occurred in the past and that every effort should be made by AEC to insure that the potential benefits of

any new development efforts warrant the incurrence of the costs involved.

GAO proposed that, when it is recognized that the development of a new or modified data analysis system will result in the incurrence of substantial costs, the laboratories be required to develop an analysis comparing the proposed system with those in existence, including comparisons of costs, speed, and accuracy, and that AEC review and approve the analysis made by the laboratory to insure that the benefits of the proposed system justify its estimated costs.

AEC believed that its review and evaluation process for data analysis system development had been satisfactory in the past. However, in view of the substantial data analysis capability now in existence, AEC agreed to accept GAO's proposals concerning future evaluation and approval of data analysis systems. (Report to the Chairman, AEC, **B-159687**, May 13, 1970)

INTERNAL MANAGEMENT PRACTICES AND RELATED CONTROLS

Accounting and Fiscal Matters

125. Disclosure of Full Amount of Expenses.—

The financial statements of the Commodity Credit Corporation (CCC) for fiscal year 1969 did not disclose that about \$21 million appropriated to the Agricultural Stabilization and Conservation Service (ASCS) for administrative expenses had been used to finance CCC's operating expenses.

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account from which operating expenses of both CCC and ASCS activities are paid. The consolidated account is funded by an ASCS appropriation and by a transfer of CCC corporate funds, up to a statutory limitation. The ASCS Budget Division estimates, on the basis of workload statistics, the amount of operating expenses applicable to CCC and ASCS activities.

Before CCC finalized its financial report for fiscal year 1969, the ASCS Budget Division apprised CCC that, in fiscal year 1969, in addition to the funds transferred by CCC for operating expenses, \$21 million had been expended in carrying out CCC activities. This additional expense was not disclosed in CCC's financial statements for the fiscal year.

In view of this omission, GAO recommended that procedures be prescribed to provide that CCC's accounting records and financial statements disclose the full amount of expenses applicable to its programs. CCC advised GAO that the recommendation would be adopted. (Report to the Deputy Vice President, CCC, Nov. 25, 1969)

126. Inclusion of Certain Costs In Reimbursable Costs of Water Resources Projects.—

It is the policy of the Corps of Engineers (Civil Functions), Department of the Army, not to include for financial statement purposes, or for the purpose of determining repayment requirements of the Federal Columbia River Power System, those costs for general investigation and development of power projects which were incurred prior to the time of congressional authorization for the Corps to construct the projects. Through fiscal year 1969, this policy has resulted in the exclu-

sion of costs totaling over \$2.1 million. GAO recommended that such costs be recorded as project costs and that the portion allocable to reimbursable programs be recovered from power revenues. (Report to the Chief of Engineers, Department of the Army, Dec. 16, 1969)

127. Accounting Systems Improvements—

GAO recommended to the Secretary of Commerce that the National Bureau of Standards be required to review its methods of allocating overhead costs to divisions and projects and make revisions to correct methods which are inequitable or inconsistent. Specifically, GAO recommended that the Bureau (1) continue to periodically review Bureau overhead costs to remove those costs which do not primarily benefit all Bureau divisions or projects, (2) clarify procedures to insure that administrative labor costs will be distributed on a uniform basis, (3) review determinations of useful life of research equipment periodically and revise them when necessary, and (4) allocate depreciation expenses to projects of the divisions located at Boulder, Colo., on a more equitable basis.

The Director of the Bureau disagreed that there was a need for improving the accounting system in the manner recommended. GAO's recommendations were made after consideration of the Director's comments. (Report to the Congress, B-115378, June 18, 1970)

128. Advance of Funds to General Agents.—

In 1967 GAO reported that the Maritime Administration, Department of Commerce, had advanced excessive amounts of cash to its general agents—private steamship companies that operate vessels under agreements with Maritime—for the operation of Government-owned vessels. During a followup review, GAO found that although these cash balances had been reduced significantly further reductions were possible. For example, contrary to Maritime's procedures, the 10 Pacific coast agents maintained in addition to anticipated cash needs a balance of \$50,000 each to accommodate unforeseen cash requirements.

Although generally disagreeing with GAO's recommendations that more adequate surveillance be main-

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tained over cash advances, the Acting Maritime Administrator informed GAO in July 1969 that the practice of allowing Pacific coast agents to maintain a cash balance of \$50,000 for contingencies was discontinued in March 1969. GAO was advised in March 1970 that tighter control procedures, which had been formulated in February 1969 and which required that cash in the hands of the agents not exceed one week's requirement, were now being adhered to. (Report to the Congress, B-118779, Feb. 24, 1970)

129. Administration of Imprest Funds.—Nine imprest funds maintained by the Environmental Science Services Administration (ESSA), Department of Commerce, contained at least \$247,000 more than was needed. An opportunity existed for consolidating funds at locations where more than one imprest fund was being maintained. Also required procedures were not always followed and funds were not always properly safeguarded.

ESSA officials stated that they generally agreed with GAO's findings and that its recommendations would be considered and appropriate corrective action would be taken. (Report to the Secretary of Commerce, B-169349, Apr. 28, 1970)

130. Restrictions on Use of Appropriated Funds.—Application of about \$133,000 of certain funds by the Maritime Administration, Department of Commerce, toward the construction of a library at the U.S. Merchant Marine Academy was, in GAO's opinion, improper because the funds had been made available for equipping and furnishing the library. The United States Code (31 U.S.C. 628) requires that funds be expended solely for the objects for which appropriated, and the Anti-Deficiency Act provides that obligations are not to be created under any appropriation in excess of the amount available therein.

Also, use of \$59,000 of maritime training appropriation funds to air-condition the library was in violation of 41 U.S.C. 12 which requires that funds for the erection, repair, furnishing, or improvement of a public building be specifically appropriated for those purposes.

Charges to the equipment and furnishings appropriation should have been limited either to the items listed in the budget submission or to items clearly identifiable as equipment and furnishings. The items charged to the equipment and furnishings appropriation under the construction contract, with minor exceptions, clearly lacked the characteristics of equipment and furnishings.

The Secretary of Commerce stated that GAO's interpretation had been called to the attention of appropriate Maritime officials and would serve as a guide in future situations. Also, the attention of such officials was directed to the requirements of the applicable laws. (Report to the Secretary of Commerce, B-118779, Nov. 14, 1969)

131. Accounting Methods Used in Establishing Fees for Reimbursable Services.—The fees charged by the Food and Drug Administration (FDA), Department of Health, Education, and Welfare (HEW), for testing certain drugs and pesticides and performing other related reimbursable services for manufacturers had not been sufficient to recover full costs. FDA is required to charge fees sufficient to cover all costs incurred in providing these services. The fees had not been sufficient because FDA did not use reliable and sound methods for determining the costs applicable to these services and, as a matter of policy, excluded certain administrative costs.

Following GAO's discussions with agency officials, FDA revised its policy to provide for full cost recovery. Also, FDA increased its fees applicable to its major testing and certification program, resulting in increased income of about \$1.1 million a year starting in fiscal year 1969. Some cost allocations, however, continued to be made on the basis of unsupported estimates.

In response to GAO's recommendation that early attention be given to establishing an adequate basis for allocating costs, HEW advised GAO that it believed the new accounting system being developed by FDA would provide adequate support for fees charged. GAO also recommended that FDA complete its studies of the fee structure of the other testing and related programs and, if necessary, adjust the fees that were being charged. In June 1970, these studies were still in process. (Report to the Congress, B-164031, Dec. 12, 1969)

132. Financial Management Activities.—The financial management system of the Trust Territory of the Pacific Islands (Micronesia), Department of the Interior, is so weak that neither top management officials nor the Congress can trust it to provide essential and reliable information for management's use in attaining efficient and economical operations and to satisfactorily report on the custody and use of resources.

Deficiencies existed in the accounting for cash, accounts receivable, and inventories and in the report-

ing on operating and financial results—caused, in part, by weaknesses in internal control functions concerned with organization, procedures, personnel and supervision, and internal audits. There is a need for improvement in surveillance techniques at the departmental level to assure correction of these weaknesses in an orderly and timely manner.

GAO was advised that several corrective actions had been taken and others were being taken to obtain adequate controls over assets and to correct the other noted deficiencies. Also, a financial consulting firm was hired to design and install an accounting system for the Trust Territory. Although the Department disagreed that improved surveillance at the departmental level was needed, GAO continues to believe that it is. (Report to the Congress, B-114888, June 26, 1970)

133. Accounting Policies and Practices.—Federal Prison Industries, Inc. (FPI), Department of Justice, (1) allotted funds to prison institutions for vocational training of prisoners in excess of Bureau of the Budget (BOB) quarterly apportionments for three of the four quarters of fiscal year 1969 and for the entire fiscal year and (2) expended administrative funds in excess of the BOB apportionment for the first quarter of fiscal year 1969. The FPI manual did not provide appropriate internal and accounting controls over allotments and apportionments of funds.

FPI's manual also needed to provide for uniform accounting for field study contracts; consistent accounting treatment of alterations, replacements, and other changes to buildings; similar depreciation rates for similar assets; and central office review and approval of the explanation of inventory discrepancies reported by field officials.

GAO recommended that appropriate revisions be made in the FPI manual. (Report to the Commissioner of Industries, B-114826, Apr. 13, 1970)

134. Cost Ascertainment Report.—In view of the concern expressed by Members of the Congress regarding the usefulness of the Post Office Department's cost ascertainment report in assisting them to evaluate the Department's postal rate structure, GAO suggested changes for simplifying and improving the report format and presentation of the data to increase its usefulness to the Congress and to the Department. The changes recommended included the elimination of unnecessary detail and repetition and the correction of certain inconsistencies.

The Department revised its format incorporating most of the changes GAO suggested and used it in its report for fiscal year 1969. (Report to the Postmaster General, B-114874, Dec. 31, 1969)

135. Accounting System Deficiencies.—A review of aspects of the financial management system of the U.S. Coast Guard, Department of Transportation, revealed a number of areas in need of improvement. GAO reported that the Coast Guard would benefit from a financial management system that would provide for the use of internal cost-based budgets, based on and used in conjunction with an accounting system that would develop and report cost data consistent with internal budgetary classifications. Also, there was a need to improve cost accounting to provide better financial information for management through more accurate matching of the cost of resources used with the time periods in which they were used.

The Coast Guard had not established monetary control over nonexpendable property, its fund accounting structure and practices resulted in an overly complex method of allotting funds, its reports did not reflect the cost of leave for military and civilian personnel, and the liability for leave for military personnel was not recorded.

In response to GAO's recommendations, the Commandant of the Coast Guard established a fiscal year 1971 target date for implementing an internal cost-based operating budget system and for adoption of improvements and refinements in the cost accounting system and cost classifications. Actions taken by the Coast Guard are in general agreement with the recommendations and, if effectively implemented, should result in an improved budgeting, accounting, and reporting system. (Report to the Secretary of Transportation, B-115336, Dec. 23, 1969)

136. Financial Management Improvements.—Improvements in the accounting and reporting policies and procedures of the Bureau of the Mint, Department of the Treasury, were needed to provide more meaningful and reliable information for use in managing the operations of the Bureau and the resources entrusted to it.

The Bureau did not include all relevant data in its accounting records and financial reports nor did it allocate certain costs to appropriate program activities. Consequently, the Bureau's reports did not show reasonably accurate and complete costs of the performance of assigned functions. For example, the Bureau

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reported that its domestic coinage activity for fiscal year 1967 cost about \$11.9 million whereas GAO believes that a more realistic cost was about \$137.2 million. Omitted costs included costs financed from the Coinage Metal Fund, depreciation, and costs of protection and executive direction.

Also, the Bureau needed to review its entire data processing requirements, including the feasibility of establishing a centralized accounting system which would utilize a modern automatic data processing (ADP) system rather than a piecemeal approach to data processing. Since establishment of a modern ADP system requires considerable time, GAO recommended that, in the interim, the Bureau actively implement its plan for processing accounting records on electronic accounting machines (EAM). The more significant accounting records were not being processed by EAM and many records were being processed both manually and by EAM.

In addition, there was a need to revise the method of financing Bureau operations to enable the Congress to strengthen its control over Bureau activities, permit greater flexibility in planning coin manufacturing, and simplify financing procedures.

GAO was informed that:

The Bureau intended to proceed with desirable improvements in its accounting and reporting system but that certain changes would require approval by the Bureau of the Budget since the changes would affect the budget presentation.

The Bureau would eliminate, insofar as practicable, the manual records which duplicate the records processed on EAM equipment. Also, the Bureau would implement GAO's recommendation regarding a centralized system for processing accounting and management records on ADP equipment when the Bureau was able to employ sufficient qualified personnel.

The Department recognized the need for improved financing of the Bureau's operations, but the Assistant Secretary believed the Department should defer submitting any legislative proposals on this matter until (1) the new Director of the Mint had an opportunity to review the entire Bureau operations and (2) several proposed changes in the coinage laws and other laws affecting the Bureau's operations were enacted.

(Report to the Congress, B-114877, Jan. 16, 1970)

137. Time Discounts Lost.—A review of selected payment vouchers showed that the District of Colum-

bia Government had not paid all vouchers on which discounts were offered within the discount period, had not taken the discount on some vouchers paid within the discount period, and had not recorded the applicable discount terms on all vouchers.

GAO concluded that some discounts were lost because of improper supervision and review, particularly where the voucher was paid within the discount period and the discount was not taken and where the discount terms were not recorded on the vouchers. Only one of the four larger District departments had special procedures for identifying and expediting the processing of vouchers which offered time discounts.

In a letter to the subcommittee chairman regarding GAO's report, the Acting Commissioner stated that a directive was being prepared which would require all District departments and agencies to update their current procedures for processing payment vouchers and alert them to the necessity of handling such vouchers expeditiously. He stated also that the District's Office of Municipal Audits had been instructed to investigate the entire matter and to recommend any necessary corrective action. (Report to the chairman, Special Studies Subcommittee, House Committee on Government Operations, B-169144, May 1, 1970)

138. Augmentation of Appropriated Funds.—

The National Science Foundation (NSF) followed the policy of crediting to appropriated funds for further use in its grant programs certain income generated under grant-financed activities and remitted to it by grantee universities as a return of unused grant funds. This policy was applied, in particular, to the disposition of proceeds from the sale of instructional materials developed for the improvement of science courses in secondary schools.

The United States Code (31 U.S.C. 484) provides that the gross amount of all moneys received from whatever source for use of the United States must be deposited into the Treasury without abatement or deduction of any kind. Although an agency may, by specific legislation, be granted authority to use receipts, NSF had not been granted such authority with respect to the funds here involved. GAO therefore advised NSF that it was augmenting its appropriation without specific authority.

NSF subsequently stated that it had discontinued the practice of crediting grant-generated income to its appropriation and that its policy would be changed to preclude the improper augmentation of appropriated

funds. (Report to the Director, NSF, B-154996, Nov. 5, 1969)

139. Claims Collection Procedures.—GAO's review of the collection of overpayments of retirement and unemployment insurance benefits by the Railroad Retirement Board showed that collection efforts were frequently continued over a long period of time. In some instances the cost of collection efforts appeared to exceed the amount of the debt. Also, there was a need for more adequate documentation of the bases for decisions to terminate collection efforts. Board officials agreed to revise the procedures to limit collection efforts on small debts and to appropriately document case files. (Report to the Chairman, RRB, B-117604, June 4, 1970)

140. Medical Care Cost Accounting System Improvements.—GAO found that the Veterans Administration (VA) medical care cost accounting system could be revised to make more useful cost data available on the various medical activities conducted by VA hospitals and other medical facilities. The system did not provide management with adequate data to serve as a basis for, (1) making meaningful comparisons of the average cost per patient day (per diem cost) of one VA hospital with the per diem cost of other VA hospitals, (2) comparing the per diem cost of a VA hospital with its past performance, and (3) allocating medical care funds to hospitals and meeting planning-programming-budgeting requirements.

GAO noted a need for revisions in the major program cost accounting categories and in procedures for distributing hospital operating costs to medical programs. A need for identification of costs with responsible managers was also noted.

Accordingly, GAO suggested that VA revise its cost accounting system to provide for an increase in the number of program categories to disclose the costs of all major endeavors, specifically the separate costing of medical care for the three major patient types—surgical, medical, and psychiatric—and for research and training. GAO suggested also that improvements be made in the procedures followed in determining the costs of medical care programs, specifically, (1) to charge costs directly to benefiting medical programs to the fullest extent practicable and (2) to identify budgeted and actual costs not only by designated cost centers but also by subordinate activities and services.

At the time of GAO's review, VA was planning to revise certain aspects of the medical care cost account-

ing system. In implementing these plans, VA gave careful consideration to GAO's suggestions and made a number of significant changes to improve the system. (Report to the Congress, B-61930, Aug. 5, 1969)

141. Charges for Military Pilot Training Services Sold to Foreign Country.—The Foreign Assistance Act of 1961, as amended, requires that, whenever military training services are sold to foreign countries, the Department of Defense charge not less than the value thereof in U.S. dollars.

GAO found that the prices (about \$62 million) established by the Air Force to recover the cost of the pilot training provided to the Federal Republic of Germany for F-104G aircraft through December 1966 did not include all direct and indirect costs incurred by the Air Force to provide that training. The Air Force excluded the costs of military pay and allowances, utilities, building maintenance, and facility modification. These costs amounted to about \$6 million.

The Air Force also (1) excluded the rental charges on U.S.-owned aircraft and equipment used for the training and (2) failed to collect for Government-furnished housing supplied to the foreign students.

In line with GAO's recommendations, the Department of Defense conducted a study of pricing of foreign military sales involving training. As a result DOD instructions on policy and criteria for pricing sales of training were revised. However, the Department disagreed with GAO's recommendation that retroactive charges should be attempted for those costs omitted in the past, except for housing costs. (Report to the Congress, B-167363, Nov. 19, 1969)

142. Progress Toward Development of an Adequate Accounting System in the Peace Corps.—GAO reported in August 1969 on the progress being made in the development of an accounting system by the Peace Corps to replace the existing inadequate system which failed to conform, in material respects, to the principles, standards, and related requirements of the Comptroller General.

The Peace Corps first recognized the need for an improved accounting system early in fiscal year 1966. In April 1966, a limited professional accounting service contract was entered into, under which an accounting manual, mainly describing the existing system, was prepared. Upon reviewing the manual in April 1967, GAO concluded that further major efforts would be needed to develop an adequate system.

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Progress since that time has been impeded by the inability of the Peace Corps to recruit an accounting systems staff. As a result, the same public accounting firm was engaged in June 1968 to design and install an improved accounting system that would conform to the Comptroller General's requirements.

GAO reported a number of specific accounting system and management control inadequacies and problem areas which it identified as needing attention in connection with the present system development efforts. These included allotment and obligation accounting, accrual accounting, accounting for costs, property accounting, accounting for volunteer readjustment allowances, financial reports, and internal management controls.

GAO recommended that the Peace Corps management:

Strongly support the current contractual effort.

Provide adequate resources to maintain the improved system and review it in operation under an adequate internal audit program to insure that it would operate effectively as a tool of management.

The Peace Corps concurred, in most respects, with GAO's observations and conclusions. GAO plans to continue to consult with the Peace Corps and its contractor concerning the agency's accounting system development and financial management improvement efforts. (Report to the Director, Peace Corps, B-165743, Aug. 15, 1969)

143. Financing and Accounting Policies.—During fiscal year 1969 the contingent liabilities reported by the Export-Import Bank of the United States as loan maturities sold subject to contingent repurchase commitments included participations of \$299 million in specific loans in support of which the Bank issued to the purchaser instruments called "certificates of beneficial interest." GAO believes these instruments should be considered as borrowing or financing transactions rather than sales of assets because:

The buyer of a certificate does not actually take possession of the loan instrument executed by the original borrower.

The buyer is not free to dispose of the instrument without restrictions.

The treatment of certificates of beneficial interest by the Bank on its financial statements and the Bureau of the Budget in the preparation of the annual national budget is unresolved. The Bank is exploring new ways of handling its loan assets which it hopes will

satisfy GAO's opinion of what constitutes a sale rather than a borrowing.

GAO noted that the Bank's agreement with the Foreign Credit Insurance Association, pursuant to which the Association offers comprehensive and political risk export insurance to U.S. exporters, did not insure an equitable distribution of program earnings or losses to the Bank. Generally, the Association now receives 80 percent of premium income, net of commissions, and assumes 55 percent of the expenses. From inception of the program through June 30, 1969, the Bank suffered a cumulative loss of about \$2.4 million and the Association realized a cumulative gain of about \$60,000. GAO recommended that the Bank evaluate the provisions of the agreement to provide for an equitable distribution of earnings to the Bank from its insurance program. The Bank is studying its agreement with the Association with the goal of obtaining a more meaningful distribution of income and expenses.

During GAO's audit of the Bank for fiscal year 1968, it was recommended that the Bank seek methods to refine and improve upon the monitoring of the discount loan program to determine the program's impact on financing exports. At that time the Bank stated that it was impractical to attempt to fully assess the impact of this program. However, GAO noted increased efforts which, in part, led to instituting a new discount loan program effective July 1, 1969. The president of the Bank believes that under the new program the Bank is able to fully assess the impact of the program and that the impact has been favorable.

It was also recommended last year that the Bank establish a standard minimum procedure to document the nonavailability of commercial bank credit prior to approval of loans to insure compliance with the legislative mandate that the Bank should supplement, not displace, private financing. GAO believes that Bank instructions developed in December 1969 are generally responsive to this recommendation.

Regarding the operation of the Bank's export expansion facility, GAO stated that the development of more definitive criteria was necessary to obtain the largest expansion possible while holding losses under the program as low as possible. The Bank developed guidelines in December 1969 which appear to be generally compatible with the congressional intent in establishing the program. (Report to the Congress, B-114823, May 19, 1970)

144. Progress and Problems Relating to Improvement of Federal Agency Accounting Sys-

terns.—In September 1969, GAO reported on the progress made and problems encountered, during calendar year 1968, by Federal agencies in developing and improving their accounting systems in accordance with the overall mandates of the Congress and the related principles, standards, and requirements prescribed by the Comptroller General. The report was prepared in response to a recommendation of the House Committee on Government Operations.

The report contained the following observations:

Federal agencies are showing increased interest and activity in improving their financial management systems, in obtaining approval of their accounting systems, and in developing adequate accounting systems.

The concept of accrual accounting—a requirement stated in law and in related principles and standards prescribed by the Comptroller General—has been generally accepted in principle throughout the Government. Current problems relate primarily to effectively applying the concept in practice.

Although Federal agencies have, with some exceptions, adopted the concept of monetary property accounting—proper accountability of Government-owned property in dollar terms—serious deficiencies exist in implementing and operating such systems.

There is a need for better coordination between planning-programming-budgeting staffs and the accounting and reporting staffs in most Federal agencies.

There are too few good cost accounting systems in the Federal Government.

There is a continuing shortage of qualified accountants in the Federal Government.

The report contained no specific recommendations. However, GAO has made numerous recommendations and suggestions to individual agencies concerning financial management and accounting matters in reports to the Congress and to agency officials and in informal dealings with agencies. (Report to the Congress, B-115398, Sept. 18, 1969)

145. Implementation of the Accounting System for Operations in the Department of Defense.—In March 1970, GAO reported on the implementation of the accounting system for operations in the Department of Defense. The report was based on GAO's cooperative participation in the implementation of the new accounting system. GAO

found that (1) although problems have been incurred in implementation, the basic concepts of the system are sound, and if properly **carried out**, should result in improved financial management and (2) the full potential for effective management is not being realized because insufficient emphasis has been placed on (a) improved development and use of performance data correlated to financial data, (b) reducing the dependence of lower level and middle level managers on obligation accounting, and (c) necessary personnel training.

GAO recommended:

Improvement of financial controls over **military** personnel costs.

Inclusion of expense authority in operating budgets of activities to which military personnel are assigned and charging the expense of such personnel to the activity where they work.

Central monitoring of the military personnel program throughout the Department of Defense and coordinated management of military personnel expenses among the Defense agencies and military services.

That undelivered orders from sources other than local stock fund inventory be obligated when placed and be recorded against the consumer appropriation.

That the service unit concept for motor pool facilities not be extended until tests have clearly demonstrated its real benefits, and that (1) criteria be established for determining to which function this concept can be beneficially applied and (2) specific guidelines be prescribed for service tests to achieve more uniform application of the concept.

The Office of the Secretary of Defense has indicated agreement with these recommendations except for recording orders from sources other than local stock fund inventories as obligations against the consumer appropriation.

The Department has taken some preliminary steps on the recommendations pertaining to military personnel expenses and has not extended the motor pool service unit concept. GAO is working with departmental personnel to resolve the problems that exist in those areas and to clarify the legal aspects as well as the financial management principles involved in orders from sources other than local stock fund inventories. (Report to the Congress, B-159797, Mar. 4, 1970)

Auditing

146. Coordination of Organizations Performing Internal Management Reviews and Evaluations.—In day-to-day work within the Department of Defense (DOD), GAO had observed the existence of many groups performing management reviews and evaluations more or less independently of the efforts of other groups. Also noted was a growth in the number of such groups, a striking sameness of authorized areas of interests, a seeming overlap of functions, some confusion as to assigned responsibilities, and an apparent need for some measure of overall coordination and guidance of the total review effort. GAO examined into the activities of the review and evaluation groups and the effectiveness of the coordination of the work of the groups.

The function of review and evaluation in DOD has not been defined, and, except in a relatively few cases, GAO found no evidence that guidance had been issued concerning the creation of new review and evaluation groups; the extent, number, and frequency of the evaluations to be performed; the prevention of overlapping of duties and responsibilities assigned to the groups; the coordination of effort; the utilization and training of personnel; and the costs involved.

The full extent of the review and evaluation effort in DOD is unknown. However, the staffs of the groups included in GAO's review—which excluded many permanently established groups and all the numerous ad hoc groups—ran into many thousands and the costs into many millions of dollars annually.

GAO recommended that the Secretary of Defense take action to establish effective coordination among groups that provide review and evaluation services, and also furnish guidance and, where necessary, training, in order to achieve maximum benefits from the total review and evaluation effort.

The Assistant Secretary of Defense (Administration) did not agree completely with GAO's findings and conclusions, but stated that the following actions would be taken with respect to the problems identified.

GAO's report would be considered by the "Blue Ribbon Panel" which the Secretary of Defense was appointing to make an objective review of the organizations, functions, and control procedures of DOD.

DOD would emphasize the need for the principal audit and inspection organizations to evaluate the performance of, and justification for, the decen-

tralized review and evaluation groups, and examinations of the justifications for review and evaluation of personnel requirements at all levels would be intensified.

Studies would be made (1) of the essentiality for having three principal evaluation groups review procurement operations and (2) to identify areas of overlap and duplication, between Inspectors General and internal audit activities, and to consider the degree to which their functions might be merged.

(Report to the Congress, B-132900, Jan. 2, 1970)

147. Audit of Costs Prior to Contract Negotiations.—The Maritime Administration, Department of Commerce, pays the operator of the nuclear merchant vessel *Savannah* an amount for overhead and profit based on a negotiated percentage of the gross revenues earned by the *Savannah*. Prior to adopting the current procedure, Maritime had negotiated overhead allowances without excluding certain unallowable costs.

Maritime informed GAO that it considered the initial method of computing the overhead allowance to be reasonable because of the lack of any prior factual experience upon which to base true overhead cost requirements. Maritime also considered the current method of compensating the operator for overhead expenses acceptable and that the use of a negotiated percentage of gross revenue eliminated the need for a preaudit of overhead expenses which GAO had suggested.

Still believing that a preaudit was required to properly evaluate the reasonableness of the ship operator's proposed percentage, GAO recommended that, in determining the operator's profit and overhead in future years, the contracting officer be required to determine through a preaudit of the general and administrative expenses (1) the cost items pertinent to the *Savannah* and (2) the reasonableness of the percentage to be applied to gross revenue in relation to the results disclosed by the preaudit. (Report to the Congress, B-136209, June 26, 1970)

148. Internal Audit.—GAO reported that a single audit organization for the Department of Housing and Urban Development (HUD) placed at the highest practical organizational level should provide greater opportunity for more flexible use of staff resources and place the auditors in a better position to independently and objectively review and report on all HUD programs.

The Secretary of HUD agreed that all audit functions should be consolidated and accordingly placed them under HUD's Office of Audit. The Secretary stated that the Office of Audit would continue to report to the Assistant Secretary for Administration on the basis of the Secretary's determination that this was the highest practical level to which the Office of Audit should report.

Because the Assistant Secretary for Administration was responsible for many of the activities subject to internal audit, GAO recommended that the Secretary satisfy himself that the internal auditor is sufficiently independent and has the latitude to make impartial appraisals of operations and activities; that he concern himself with the scope, effectiveness, and staffing of the internal audit function and with the adequacy of attention paid to audit findings and recommendations; and that he provide the internal auditor with direct access to the Secretary when the internal auditor deems this necessary to fulfill his responsibilities.

To insure that, under the organizational structure of the Office of Audit, adequate independent internal review coverage would be given to the external audits of grantees and other third parties, GAO recommended that the Secretary, from time to time, satisfy himself as to the adequacy of the discharge of these responsibilities. (Report to the Secretary, HUD, B-160759, Oct. 16, 1969)

149. Organizational Placement and Performance of Internal Audit Function.—GAO suggested that, in order for internal auditing to be a more effective and integral part of the Treasury Department's management control system, (1) the internal audit staffs in the Department's 10 operating bureaus and offices, with the exception of the Internal Revenue Service (IRS) staff, be consolidated, (2) the consolidated organization be responsible to the highest authority practicable, (3) reviews in addition to reviews of financial matters be made, and (4) IRS internal audit activities be subject to departmental guidelines and continuing appraisal.

The Department believed that the objectives of these suggestions could best be accomplished through its present internal audit system, and the Under Secretary stated that he did not think it was the proper time to consolidate the audit staffs or to change their reporting level. GAO therefore made the following recommendations for strengthening the Department's internal audit system within its present organizational structure:

The Department should require its Internal Audit Division to (1) increase the frequency of its appraisals of the bureaus' internal audit activities, (2) establish procedures for timely followup, and for informing management, on the status of significant findings and recommendations contained in appraisal reports, and (3) review on a continuing basis the planning of internal audit work, including the establishment of bureau-wide and Department-wide audit priorities, the scope and effectiveness of internal audits, and the attention of bureau management to audit findings and recommendations.

Concerted recruitment, training, and professional advancement programs should be established for the professional personnel of the various audit staffs of the Department.

In the interest of greater independence and objectivity, the heads of the bureaus should be encouraged to relocate their internal audit function to a higher level, preferably under the bureau head or his deputy, and to discontinue the practice of diverting internal audit personnel to operating functions.

The Commissioner, Bureau of the Public Debt, should be required to strengthen the Bureau's internal audit system by assigning to the Washington Internal Audit Section the responsibility for all internal audit activities within the Bureau, including the planning and scheduling of audits and the assignment and utilization of audit personnel.

The Department planned to implement, in varying degrees, most of these recommendations. (Report to the Congress, B-160759, Oct. 13, 1969)

150. Internal Audit Policy.—The policy governing internal audit activities of the Internal Revenue Service, Department of the Treasury, provides that the internal auditors make independent reviews of all operations at all levels of management, including determinations as to whether policies, practices, procedures, and controls are being efficiently and effectively carried out. In accordance with this policy, the internal auditors concentrate generally on reviewing selected functions at each field office included in the annual audit work plan.

Although certain functions should be subjected to continuous surveillance at all field offices, it was GAO's opinion that not all functions are of the type that require continuous surveillance at each field office and that benefits could be derived by reviewing functions common to all field offices at a few selected locations. Reviewing such functions at selected locations would

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permit the auditors to extend their coverage to other functions.

In response to the recommendation that more reviews of functions common to all offices be made at selected offices rather than at all offices included in the annual audit plan, GAO was informed that the Internal Revenue Service would make every effort to identify additional areas in which it could suitably apply the concept. (Report to the Secretary of the Treasury, B-160759, Oct. 10, 1969)

151. Management of Internal Review Activity.—GAO reported that the internal review activities at the Railroad Retirement Board would be of greater value to management if more attention was directed toward (1) evaluating management controls over major programs, (2) planning and coordinating the internal audit and inspection activities, (3) preparing specific audit programs, and (4) developing the causes and significance of identified weaknesses. Also, the Board needed to improve the capability of the internal audit staff to achieve adequate audit coverage by establishing a formal training program and, if necessary, by recruiting personnel from outside sources.

The Board informed GAO that it planned to increase its audit manpower, to emphasize the need for broadening the scope of its internal review activities, and to make other improvements. Although the Board disagreed, GAO believes that written audit programs are needed. (Report to the Chairman, RRB, B-114817, Feb. 10, 1970)

152. Organizational Placement and Coverage of Internal Audit.—There were *two* organizational elements within the Veterans Administration (VA) which had agencywide audit responsibilities. The Audit Staff in the Office of the Controller was responsible for performing audits of all VA fiscal activities. The Internal Audit Service (IAS) in the Office of Management Engineering and Evaluation was responsible for reviewing all VA activities including fiscal activities.

GAO's review showed that IAS had expended its audit resources primarily on station audits rather than program audits and its records showed that 16 of the 220 VA field stations located in the United States had never been audited and that an additional 36 stations had not been audited in the last 10 years, either under a station or program audit basis. Also, both audit groups were reporting to officials who were directly responsible for certain operations the auditors reviewed.

GAO recommended that (1) the two audit groups

be consolidated, (2) the consolidated organization report to the highest practical level, preferably the Administrator or the Deputy Administrator, and (3) audit effort be redirected to insure that more emphasis was placed on program audits. Increased emphasis on program audits should maximize the value of internal audit to all levels of management by more readily disclosing whether audit findings were isolated or nationwide problems. Such disclosures would promote more timely remedial action on an agencywide basis.

VA informed GAO that, in consonance with GAO's recommendations, VA would conduct more program-type audits. Also, the two audit groups had been consolidated and they would report directly to the Deputy Administrator. (Report to the Congress, B-160759, Oct. 3, 1969)

153. Improving Internal Audit.—GAO reviewed the internal audit activities of the Department of State with respect to the overall management and the adequacy of coverage and independence of the internal audit function conducted by the Audit Program Unit. GAO found that there was a need for the Department to redirect and expand the internal audit effort to include substantive program management rather than confining it to functional or housekeeping-type activities; that the independence and stature of the internal audit function suffered from its organizational location and method of financing; and that better work plans and audit programs were needed. GAO also found that the scope of examination and size of staff need expansion, that reports should be directed to higher levels, and that recommendations should be followed up.

GAO's major recommendations were that the Secretary of State (1) broaden and refine the internal audit objectives whereby the programming approach, performance, and reporting would be more selective and balanced in terms of covering the entire range of management responsibilities, (2) relocate the Audit Program Unit from its present subordinate position, and that it be joined, at the highest practicable level in the Department, with the Foreign Service Inspection Corps in a new management surveillance entity consisting of separate elements for internal audit, contract and grant audit, and inspections, (3) place greater reliance on audits of contracts and grants by public accountants and arrange for maximum utilization of audit facilities of other Government agencies, and (4) increase efforts to recruit qualified auditors, provide for adequate and direct funding of internal audit ac-

tivity, and establish practices to insure that audit recommendations are carried out. GAO also recommended that the Director of the audit function take necessary steps to establish adequate work plans and written programs.

In response to these recommendations the Department stated that action will be taken (1) to enable it to place greater reliance on public accountants' audits and to have more contract and grant audits performed by other agencies and (2) to establish adequate work plans and written review programs. (Report to the Congress, B-160759, Dec. 16, 1969)

154. Organizational Placement of Internal Audit Function.—In a letter to the Director of the Peace Corps in December 1967 on a limited examination into a reorganization involving the internal audit function, GAO stated that its comparison of the functional statement in the Peace Corps Manual for the former Audit Staff with the proposed functional statement for the new Division of Administrative Support and Review led it to believe that the audit function would be restricted and also would be subordinated to operational functions of the new division. Under the reorganization announced in August 1967, the Audit Staff and the position of Special Assistant for Field Support were replaced by a Division of Administrative Support and Review within the Office of Administration.

GAO recommended that the Director of the Peace Corps reconsider the reorganization decision with a view to improving the system of management control by reestablishing and improving the internal audit function and insuring its independence from line operating functions.

A new functional statement accompanying the Director's reply in January 1968 did not include the particular constraints on the auditors referred to in GAO's report except for such constraint on auditor independence as may have been caused by the organizational placement of the internal audit function.

In August 1969, GAO submitted a report to the Director of the Peace Corps, relating to the development of the agency's accounting system, to inform him of the progress being made and of inadequacies identified for corrective action.

GAO expressed continued concern because the internal auditors were still in a position subordinate to officials who are directly responsible for important operations that are subject to review. The failure to make any substantive audits of accounting operations

in Washington since the date of that reorganization may be related to the restrictions and constraints observed in the proposed functional statement referred to in GAO's December 1967 letter, even though that functional statement was not formally adopted by the Director of the Peace Corps.

The existence of an unconstrained (i.e., independent) internal audit staff is an important feature of an effective management control system. Moreover, adequate review of accounting operations under an effective internal audit program is essential for an effective accounting system.

GAO believes that the agency's continued failure to act on the organizational placement of the internal audit function indicates a possible lack of adequate appreciation by Peace Corps financial management officials of the internal management control standard dealing with segregation of duties and functions and related requirements. (Report to the Director, Peace Corps, B-165743, Aug. 15, 1969)

Management Information Systems

155. Navy Military Personnel Data System.—The Navy's automated manpower and personnel management information system is designed to furnish accurate and timely data on its 1.2 million active and reserve officer and enlisted personnel. The data provide information for use in making decisions on such matters as personnel assignments, promotions, and school selection.

On the basis of tests, GAO estimated that, at the activities it visited, at least 83 percent of the records of officers and 79 percent of the records of enlisted men contained one or more errors. Inaccuracies were found in various types of information, such as data on the qualifications, achievements, and prior assignments on active duty. At GAO's suggestion, the Navy established accuracy standards for many data items. The error rates found on specific data were considerably higher than those the Navy standards indicated were acceptable. Existing procedures for finding and correcting errors were not followed and internal reviews were not made to inform management on adherence to procedures and the degree of accuracy attained.

GAO suggested that the Navy strengthen the error detection and correction procedures, establish appropriate accuracy standards for data, and request the Navy Auditor General to make an independent assessment of the validity of the system data.

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The Navy stated that its existing error detection and correction procedures are adequate when complied with and that it would take the necessary action to achieve compliance. (Report to the Congress, B-169031, June 23, 1970)

156. National Sport Fishing Programs.—The Bureau of Sport Fisheries and Wildlife, Department of the Interior, has initiated a system to identify, by geographical regions of the United States, the supply and demand for sport fishing opportunities on a current and projected basis. Initial data developed by the system showed that substantial imbalances in supply and demand occurred during 1968 and will continue to occur and become more significant by 1974 if changes in current programs and program direction are not made. Although the Bureau had considered certain changes, these changes had not been made at the time of GAO's review.

GAO suggested that, initially, essential planning and field resource information be developed and action be taken in the geographical regions already identified as having the greatest need for sport fishing and that procedures then be established to periodically evaluate, and to report to the Congress on, the effectiveness of the programs in attaining program goals and in meeting the sport fishing needs of the public throughout the country.

GAO was informed that (1) the Department concurred with the suggestions concerning periodic evaluation of the programs' effectiveness, (2) the Bureau expected to reconstruct its planning data utilizing newer and more accurate information as it became available, and (3) where possible, projects were being implemented in recreation deficient areas. Also, the Bureau has contracted with several universities to study the demand function for fish and wildlife resources and is encouraging the States to undertake long range planning based on projections of demand and resource needs. (Report to the Director, Bureau of Sport Fisheries and Wildlife, Sept. 29, 1969)

157. Planning-Programming-Budgeting Systems.—In July 1969 GAO reported on the executive agencies' progress in implementing the planning, programming, and budgeting (PPB) system and on major problems being encountered.

Twenty of 21 agencies included in GAO's survey, and directed by the Bureau of the Budget to adopt a PPB system, had succeeded in developing PPB program frameworks. There were differences among these

frameworks and it is evident that there are obstacles to the creation of a Government-wide structure.

In general, agencies did not have extensive written policies to guide analysts in the preparation of various PPB documents and studies. In seven larger departments and agencies, only one had written policies that dealt with assumptions related to environmental conditions. Six of the seven departments had no written policies concerning coordination of analytical work with other agencies or documentation required for PPB studies. Similarly, communication between accounting staffs and PPB staffs has not been extensive. It seems unlikely that the full benefits of data available from agency accounting systems can be realized unless there is a closer relationship between users and suppliers of financial information.

The report contained no recommendations. However, it did state GAO's belief that all agencies should give specific consideration to the potential advantages of having written instructions describing the documentary support that should be prepared for special analyses and other PPB reports. Significant advantages should be realized by agencies if planning and evaluation efforts pertaining to problems common to one or more agencies were coordinated by a central agency. (Report to the Congress, B-115398, July 29, 1969)

Management Practices—General

158. Policies Covering the Collection of Outstanding Claims.—At the request of the chairman, Foreign Operations and Government Information Subcommittee, committee on Government Operations, House of Representatives, GAO reviewed the effectiveness of:

Policies of the Agency for International Development (AID) for collecting refund claims from the Government of Vietnam (GVN).

AID's efforts to establish an escrow account from which reimbursement for refund claims could be obtained automatically, as recommended by the committee and in section 403 of the Foreign Assistance Act of 1967.

GAO's review showed that after only limited efforts to establish an escrow account, AID, together with the GVN, established a Joint Task Force in an effort to settle the large balance of long outstanding claims against the GVN. Although this alternative was successful in collecting most of the claims that had been

outstanding for excessive periods of time as of June 1967 when the Task Force was formed, the problems that led to the proposal to establish the escrow account still existed.

AID's tolerant policy regarding the filing of claims for AID-financed commodities remaining in the Saigon Port as distressed cargo, and in Vietnamese bank and importer warehouses pledged as collateral on loans, contributed materially to the prolonged nonutilization of these commodities in the Vietnamese economy. Claims for the cost of the commodities either had not been filed or had been billed only after considerable delay.

AID also had difficulty in establishing whether the GVN was responsible for irregularities discovered under Public Law 480 and project assistance. As a result, its right to file claims for such irregularities was not established.

Accordingly, GAO suggested that :

AID obtain agreement with the GVN to establish an escrow account.

AID file claims for the cost of U.S. commodities which had been in Vietnam for an excessive period of time without entering the economy.

AID establish a reasonable time period for AID-financed commodities to be moved into the economy.

AID devote greater effort in its internal reviews of Public Law 480 and project assistance to determine the party responsible for irregularities.

AID replied that:

Its Mission reported that, on December 31, 1969, the value of outstanding billings had been reduced to \$414,569 and that monthly receivables outstanding were not expected to exceed this amount significantly. Accordingly, AID concluded that an escrow account did not appear to be warranted to cover such a small balance.

All aging AID-financed cargo had been removed from the port; and Mission audits of unutilized commodities in bank warehouses have resulted in billings against the GVN of \$3.4 million, of which \$2.2 million has been paid. Payment of the remaining \$1.2 million was being held in abeyance pending a legal decision.

The prolong nonutilization of goods was related to conditions which were no longer existent. The chaotic situation caused by the massive buildup of 1965-67, which made the identification of AID-financed items and the respective importers extremely difficult, had been resolved.

With respect to project and Public Law 480 commodities, AID's Mission was continuing its efforts to fix responsibility and to bill and collect for loss and misuse of such goods. In the period July-September 1969 the GVN paid 1.6 million piasters for losses and damages to such commodities.

GAO reported these matters to the Congress because of its concern with U.S. activities in Vietnam. Congress may wish to consider whether further guidance should be given to AID concerning the establishment of an escrow account. (Report to the Congress, B-159451, Dec. 3, 1969)

159. Major Weapon System Provided to Far East Countries.—GAO reviewed the readiness of a major weapon defense system provided to Far East countries under the military assistance program. The systems were furnished for incorporation into and augmentation of the defense system of the Pacific Command. The systems are subject to U.S. control in the event of hostile actions.

The combat readiness condition of the systems provided was being seriously impaired by inadequate supply and maintenance support. These systems had not been combat ready (i.e., fully capable of accomplishing assigned mission) for extended periods of time. A U.S. Army, Pacific, regulation requires full combat readiness at all times.

In one country, the major reasons for the low readiness condition were (1) the shortages of required repair parts due to failure to stock mandatory items and delays in ordering replenishments and (2) the inability of the recipient country maintenance shop to make timely repairs. Also, continental United States and recipient country supply sources did not provide adequate support.

The low combat readiness of the systems provided to another country was due primarily to inadequate repair parts support by the U.S. Army. Supply management problems experienced by the Army included (1) excessive order and shipping time, (2) shortage of funds to purchase replenishment stocks, and (3) filling low priority orders while high priority orders for the same part remained unfilled. To improve support, the U.S. Army implemented a separate depot system for this type of weapons system.

The Department of Defense stated that the GAO findings were generally valid for the period covered by the initial review (July-December 1967) but that, subsequent to that time, corrective actions had been taken and the situation had been improved.

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A followup review disclosed that, although some improvements had been made, a low level of readiness continued primarily because of inadequate supply and maintenance support.

GAO submitted the report to the Congress to call attention to the low state of readiness of the system. GAO also recommended to the Secretary of Defense that, in view of the low readiness condition and since these units are part of the Pacific Command defense system, the need for continued improvement be stressed to appropriate officials.

DOD stated that the supply and maintenance deficiencies cited in the report were being gradually corrected, and responsible U.S. military commands and advisory groups as well as recipient country military authorities were fully aware that substantial improvement was still needed before full combat ready status could be sustained. DOD also stated that the Commander-in-Chief, Pacific, was being requested to submit semiannual reports of progress in accomplishing corrective action, the first report to be submitted as of June 30, 1970. (Report to the Congress, B-161764, Jan. 14, 1970)

160. Management Improvements Needed in Activities Conducted by the United States Information Agency in India.—GAO reported in October 1969 on selected activities of the United States Information Agency (USIA) program in India. Although GAO's review did not reveal any deficiencies which would significantly impair the attainment of the overall USIA program objectives, certain management areas were identified which could provide additional economies or improve operating effectiveness in that country.

The United States Information Service (USIS) post in India had expressed concern over the unacceptable quality of Voice of America broadcasts being transmitted to India through a relay station located near Columbo, Ceylon. Also, recent in-country listener polls had indicated the college-educated audience did not listen to vernacular broadcasts in appreciable numbers.

Although the station's value was reportedly marginal and new long range transmitting facilities were under construction in Greece and nearly completed in the Philippines which would provide India with a signal as good or better than that transmitted from Ceylon, GAO found that no decision had been made to discontinue the station's use even though the agreement with Ceylon would be subject to renewal in 1970.

The report also pointed out the need to improve certain practices followed by USIS-India in negotiating contracts for the production of media service materials, and the desirability of devising a system for evaluating the distribution of Agency sponsored books to USIS target audiences.

GAO recommended that USIA:

Reassess the need for the continued operation of the Ceylon relay station at such time as the Philippine facility became operational.

Implement procedures for obtaining data on the effectiveness of the book program in India.

Revise contracting practices to assure conformity with accepted contracting procedures.

GAO was advised by USIA that corrective action would be taken on the matters discussed in the report to the extent practicable. However, a final decision as to the future of the Ceylon relay station could not be made until certain technical and programming difficulties at the newly operational Philippine facility could be resolved. (Report to the Director, United States Information Agency, B-168178, Oct. 31, 1969)

161. Government Self-Insurance.—Because of the small amount of claims paid by the underwriter compared to the premiums paid for protection and indemnity insurance carried on the nuclear merchant ship *Savannah*, GAO concluded that it would be more economical for the Maritime Administration, Department of Commerce, to adopt the policy of self-insurance. It was estimated that savings would amount to as much as \$73,500 annually.

The Maritime Administrator informed GAO that when the experimental commercial operation of the *Savannah* was planned, it was Maritime's desire to duplicate insofar as possible the commercial shipping environment. Therefore, the operator was required to carry the insurance. The Administrator further stated that since operation of the *Savannah* had now demonstrated the ready availability of commercial protection and indemnity insurance for nuclear merchant ships, Maritime intended to adopt the policy of self-insurance beginning with fiscal year 1971. (Report to the Congress, B-136209, June 26, 1970)

162. Debt Collection.—In 1964 the House Committee on Government Operations recommended that the Department of Justice improve its practices and procedures relating to the collection of money due the United States as the result of court actions and

that it determine and report the actual amount of judgments written off for uncollectibility.

At the request of the Subcommittee on Legal and Monetary Affairs, GAO made a review in 1969 of the Department's latest policies, procedures, and practices and examined available records at the Department's headquarters. The Department had taken some actions on each of the committee's recommendations; however, additional actions needed to be taken by the Department to improve the effectiveness of its debt collection practices and procedures.

GAO repeated the belief-expressed in a report dated June 16, 1967—that a centralized collection unit should be established to perform the collection activities being performed by each of the litigating divisions and that the unit should be given the responsibility of reviewing and evaluating the effectiveness of the collection activities of U.S. attorneys.

In commenting on the 1969 report, the Assistant Attorney General for Administration stated that the principal problem in the Department's collection function was attributable to the lack of available time of attorney and support personnel, especially in the offices of the U.S. attorneys, due to the priority attention required in case litigation and other areas such as organized crime. He stated that additional positions in the 1970 and 1971 budgets would do much to alleviate this problem.

GAO's report was submitted to the subcommittee on August 18, 1969. After hearings were held by the subcommittee, another report was submitted dated October 23, 1969, in which GAO responded to questions on the Department's judgment collection activities which had been generated during the hearings. (Reports to the chairman, Subcommittee on Legal and Monetary Affairs, House Committee on Government Operations, B-153761, Aug. 18, 1969, and Oct. 23, 1969)

163. Improper Hiring Practices.—The Immigration and Naturalization Service (INS), Department of Justice, paid two clerical employees in its Frankfurt, Germany, office from imprest funds, a practice not in accord with the INS Administrative Manual. This practice was discontinued, but two U.S. citizens previously paid from imprest funds were awarded personal service contracts to perform clerical duties on a regular 40-hour week basis in INS's Frankfurt office. Also, the INS Central Office obtained the services of laborers through a temporary help agency.

The relationship between the Government and the

two clerical employees and the laborers was tantamount to an employer-employee relationship. Therefore, they were, in fact, Federal employees and should have been hired in accordance with the civil service laws and regulations.

These practices could prevent disclosure of the true staffing posture of the Central and foreign offices and could permit local management to avoid its responsibility for complying with executive orders to reduce overseas employment. Further, such practices are not conducive to adequate review and control of staffing by management officials. If additional personnel can be fully justified, they should be employed in accordance with civil service laws and regulations and their employment should be disclosed in management reports. (Report to the Attorney General, B-125051, Mar. 12, 1970)

164. Effectiveness in Meeting Overseas Supply Requirements—The Federal Supply Service, General Services Administration (GSA), operates depots in each of GSA's 10 regions in which common use items are warehoused for sale to Government agencies located in the continental United States or overseas. Under agreements with the overseas agencies, GSA is required to process their report requisitions within 1, 3, 10, and 12 days, respectively. Having found indications of export supply problems in GSA's San Francisco Region (Region 9), GAO examined its effectiveness in filling requisitions within the prescribed processing time, and the accuracy and reliability of its management information system for reporting the results of export operations.

Of a sample of 6,449 current export requisitions traced through all supply point processing phases during May and June 1967, Region 9 filled only about 775—about 12 percent—within the prescribed processing time. Region 9's low effectiveness could be attributed to the fact that operations were not geared to meet overseas agencies' supply demands.

There was a need to (1) revise certain operating policies and procedures, (2) improve the management information system, (3) exercise management controls over the use of high priority requisitions, and (4) reevaluate the supply source processing time standards. GAO made eight specific proposals to improve Region 9's export supply operations and provide a higher level of supply effectiveness to overseas agencies.

In general, GSA management was receptive to these proposals and took actions to carry them out. As a result, Region 9's export supply effectiveness increased

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to over 90 percent by June 30, 1970. (Report to the Congress, B-114807, Aug. 15, 1969)

165. Administrative Improvements in Nursing Home Care Program.—GAO found that the Veterans Administration (VA) should take action to improve certain aspects of the nursing home care program. VA had not established a clear policy for use by VA stations in determining the eligibility of veterans for placement in community nursing homes nor had VA established specific criteria for use by stations in determining the financial eligibility of veterans for care in community nursing homes.

VA concurred in GAO's recommendation to clarify its policy on admission of patients to community nursing homes and acknowledged that a more consistent

evaluation of veterans' resources seemed indicated and that guidelines for achieving this would be developed.

In addition, a lack of coordination between the VA nursing home care program and the Medicare program concerning the inspection of community nursing homes resulted in unnecessary duplication of inspections. Also, monthly patient progress reports did not serve a useful purpose and the reports on the operation of VA nursing home care units did not disclose the full cost of operating these units and did not properly compare the cost of VA nursing home care units with the cost of providing care in VA hospitals.

VA agreed to take various actions to achieve the improvements needed. (Report to the Congress, B-167656, Sept. 29, 1969)

MANPOWER UTILIZATION

Coordination

166. Selection of Military Personnel for Formal School Training.—Inasmuch as the Army operates a large service school system in the continental United States, GAO reviewed the reasons for and the effectiveness of the Army's extensive formal training organization in Europe. The review was conducted primarily at the U.S. Army School, Europe, the largest Army training organization in Europe. During fiscal year 1968, the School conducted 88 courses attended by about 32,000 military students at an estimated cost of about \$10 million.

Maximum benefits were not being obtained from the formal training program because many of the students:

- Were being trained in skills not related to their assigned duties.

- Had attended similar courses previously.

- Had been working in their skill for more than 1 year prior to attending courses.

- Had left the U.S. Army, Europe, subsequent to the training and prior to the time when their training would have been of service to the command.

- Had not satisfactorily completed courses of instruction.

This resulted because many of the allocations of school spaces were not related to actual needs. In some cases men were sent to school to fill the allocated school spaces rather than because their units needed men trained in the particular skills. Also, school training requirements were not being properly developed.

The assignment practices of the Army contributed to the need for an extensive formal training effort in Europe. These practices included rotating personnel to and from Europe and not providing a sufficient number of replacement personnel trained in the skills needed to perform assigned duties adequately. An extensive formal training effort in Europe will be needed as long as these practices continue. Also, the U.S. Army, Europe (USAREUR), was not assigning personnel, in some instances, where their skills were authorized and were needed.

GAO proposed that the Army take action to (1) insure that USAREUR provides uniform guidance to its using units for determinations of training requirements, allocation of school spaces, and selection of school candidates and (2) attain greater coordination between the training requirements in the United States and the training requirements of USAREUR in order to reduce the possibility of duplication of training in Europe. USAREUR took action to implement these proposals. (Report to the Congress, B-167664, Jan. 9, 1970)

167. Civilian Personnel Ceilings and Recruiting Practices.—At the request of the chairman, Manpower and Civil Service Subcommittee, House Committee on Post Office and Civil Service, GAO reviewed the management by the Department of Defense (DOD) of its civilian personnel ceilings—annual budgetary limitations on the number of civil service employees authorized for an agency—and its related recruiting practices. The review was performed at 12 Army, Navy, and Air Force installations of various types.

The system for managing civilian personnel ceilings lacked sufficient flexibility. Efforts of military officials to obtain approval for additional civil service positions were lengthy, cumbersome, and often unproductive. There also were recruiting problems. These factors resulted in the uneconomical and otherwise undesirable practice of contracting for the needed services from private firms.

In some instances contracts for personnel services were awarded despite the fact that cost comparisons indicated that civil service workers could perform the same work more cheaply. In other instances contracts were awarded for work which officials preferred to have performed by civil service employees in order to develop and maintain technical capability, to achieve more effective control over the work, and to lessen dependence on contractors.

Some installations needed to improve and intensify their recruiting efforts and to take action to provide every possible employment incentive. Ineffective recruiting practices included failure to advertise in

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trade and professional journals for needed employees, inability to make firm commitments to prospective employees because of hiring ceilings, delays in selecting candidates and in contacting them, uncompetitive salaries offered, and failure to offer desirable tours of duty following completion of duty in remote areas—practices that are followed by Defense contractors and other agencies of the Government.

GAO proposed that the Secretary of Defense:

Direct the military departments to review their systems for managing personnel ceilings in order to provide greater flexibility.

Insure that the military departments intensify their recruiting efforts and use all available resources and methods to obtain qualified personnel.

The Assistant Secretary of Defense (Comptroller) generally agreed with these findings and proposals and outlined the corrective actions that were being taken. (Report to the Congress, B-165959, Dec. 30, 1969)

Planning

168. Civilian Overtime at Military Installations.—Overtime and holiday pay for the 3-year period ended June 30, 1968, amounted to about \$166 million at the eight military installations included in GAO's review and averaged more than 10 percent of the \$1,594 million of regular pay at those installations. The overtime ranged from 3 to 29 percent. Personnel ceiling limitations, labor shortages, and unforeseeable emergencies were contributing problems in the management of overtime.

The stated policy restricts overtime use to emergency situations and the Department of Defense has prescribed departmental limitations representing 2 percent of regular pay. However, these objectives were not met and the use of overtime at installation level was in excess of that which could reasonably be considered emergency use. On the basis of extensive and consistent use of overtime at some installations—consistently over 25 percent for the period reviewed at one installation—GAO concluded that overtime had become a "way of life" at those installations.

Although fringe benefits are not applicable to overtime, the estimated cost is still about 20 percent more than regular time. In view of this, overtime should be reduced by better planning to meet long range manpower needs from more economical sources.

GAO proposed that the Department of Defense provide, within its manpower authorization system, a basis for giving priority to those activities where extensive overtime has been consistently incurred due to ceiling limitations on personnel. Also the departments should consider revising workload planning procedures to insure more meaningful consideration of total workloads, and the resources available for their accomplishment, in order to reduce the extent of planned overtime.

The Department of Defense agreed in principle with these proposals, but pointed out the problems created by the Southeast Asia requirements and the declining civilian work force resulting from the Revenue and Expenditure Control Act of 1968. (The hiring limitations of the 1968 act (section 201) were repealed in July 1969.) (Report to the Congress, B-157201, Nov. 28, 1969)

169. Performance Standards for Civilian Production Personnel at Military Installations.—GAO reviewed the performance standards used to measure the work production of civilian personnel at three Defense industrial activities—one Army, one Navy, and one Air Force. At one of the activities, the Yorktown Naval Weapons Station, use of invalid standards resulted in significant amounts of idle time in operating a bomb production line. It was estimated that even after certain corrective actions had been taken by the Navy, about \$280,000 a year was still being spent unnecessarily because of overstaffing. GAO found no conclusive evidence of overstaffing at the other two locations.

There were weaknesses in the development and evaluation of performance standards at all three locations which limited usefulness of the standards in controlling workloads and in insuring economical and efficient management of labor. The weaknesses were primarily attributable to shortages in staffing and incomplete training of certain specialists in performance standards at two locations and to an unsuitable plan of standards development at the third location.

GAO proposed to the Secretary of Defense that action be taken to insure that:

The military departments provide fully trained and qualified personnel for development of performance standards.

A satisfactory system of internal review of performance standards be implemented.

Standards for bomb production work at the Yorktown Naval Weapons Station be reviewed to

determine the most efficient procedures and economical use of manpower.

In response, the Department of Defense (DOD) stated that it considered its existing training programs for the development of standards personnel to be adequate to meet the objectives of GAO's first proposal and that steps would be taken to strengthen the effectiveness of internal review and evaluation of standards to meet the objectives of the second proposal. In response to the third proposal, the Navy eliminated 13 positions from the bomb production line at Yorktown.

GAO believed that the DOD training programs, although significant, had not provided adequate staffing of the standards function at the industrial activities reviewed and that, although the Navy had eliminated 13 positions from the bomb production line at Yorktown, improvements in balancing the workload could result in a further reduction of manpower requirements by more than 40 employees at a saving of about \$280,000 a year without adverse effect on bomb production.

Accordingly, GAO recommended that:

The Secretary of Defense take actions to insure that the Army, Navy, and Air Force reevaluate staffing requirements and place increased emphasis on training and staffing for their standards programs.

The Secretary of the Navy initiate and monitor a review of the bomb production functions at Yorktown to redefine jobs, establish new standards, balance the workload between sections and operators, and adjust the staffing in accordance with the findings in the review.

On March 6, 1970, DOD outlined the steps it had taken to implement GAO's recommendations and advised that the Secretary of the Navy had requested the Chief of Naval Operations to review bomb loading operations at naval activities. (Report to the Congress, B-167982, Dec. 29, 1969)

170. Alignment of Staffing to Needs.—GAO's observations at 35 neighborhood recreation centers of the District of Columbia Government indicated that community use of the centers in the fall, winter, and spring was greatest when school was not in session—in the late afternoon, during the evening hours, and on weekends. However, the assignment of District staff to the centers was not closely aligned to these periods of greatest use.

Meaningful reports on community use and staffing were not available to management because attend-

ance records were not maintained during the month and the reports of staff activities and community participation were estimated at monthend.

Subsequent to the close of this review, the Commissioner, District of Columbia, informed GAO that (1) the assignment of staff to the recreation centers had been studied and action had been taken to adjust staffing to needs and (2) a review of field reports and reporting systems was scheduled with the objectives of streamlining the reporting system and providing more meaningful statements of community participation. (Report to the Commissioner, District of Columbia Government, Oct. 29, 1969)

Manpower Utilization—General

171. Readiness of the Strategic Air Command.—Under the criteria established by the Joint Chiefs of Staff and prescribed by the Air Force, the manned-bomber and ballistic missile forces were maintaining a high state of readiness at all five Strategic Air Command bases and apparently were capable of fulfilling their assigned missions. GAO was impressed with the management emphasis and techniques employed to stress the importance of combat readiness and believes that other military services could profitably adopt some of the procedures.

However, several opportunities exist to improve the accuracy and completeness of the readiness reports, prepared by the Strategic Air Command, and to increase the usefulness of the reports to management. These improvements, if adopted, would result in the reporting of:

Reduced capability of individual units with less than the acceptable number of personnel.

Training deficiencies which occur upon conversion to new items of equipment.

Locations and probable reaction time of aircraft and crews on temporary duty away from home stations.

GAO proposed that the Secretary of Defense initiate action to have other military services adopt internal surveillance procedures similar to those of the Strategic Air Command and that certain changes be made in the readiness reports to increase their accuracy and completeness.

The Office of the Secretary of Defense requested the other military services to evaluate the applicability to their operations, of the techniques used by the Strategic

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Air Command for measuring the readiness of key combat units and the Air Force concurred in GAO's proposal for changes in the readiness reports. (Report to the Congress, B-146896, Mar. 9, 1970)

172. Readiness of Army Reserve Components.—GAO reviewed the readiness of 10 selected units of the Army Reserve Components (Army National Guard and Army Reserve) as a part of an overall readiness review program. Reserve units selected to have the highest degree of readiness and deployability were designated "Selected Reserve Force (SRF) units" by the Army in October 1965. The SRF designation was eliminated in September 1969—subsequent to GAO's review—but contingency plans provide for early deployment of Reserve units of the type included in the review.

The 10 SRF units reviewed were not ready to mobilize and deploy as rapidly as planned in the event of war or national emergency because of deficiencies in organization, training, equipment, and management. Records showed that about half of the personnel in the sample tested were not qualified to perform assigned duties in their military occupational specialty, were receiving training incompatible with needs of their units, or might not be immediately available if their units were mobilized. Among the reasons for including nonavailable members was the failure of the units to obtain current availability agreements from members who had already fulfilled their military obligations or who were qualified for release because of personal hardship.

Material programmed for SRF had been sent to Southeast Asia, leaving only limited material available for the Reserve Components. There were significant shortages of required major equipment and spare parts, and some equipment on hand was not compatible with the units' missions. These shortages affected training capability and would prevent the units from meeting their mobilization requirements.

Assessments by higher authorities of the true state of readiness were hindered by the lack of standardized management and a lack of a periodic reporting system.

Because these findings related to the basic organization, personnel, material, and reporting systems, GAO expressed the belief that the findings were characteristic of problem areas existing throughout the Army Reserve. Accordingly, it was proposed to the Secretary of Defense that :

Reserve units be specifically assigned to like units

in the Active Army to insure the improved organization, training, and equipping of such units.

Uniform standards for all units, both active and reserve, be established for determining occupational specialty qualifications.

The Army Audit Agency (AAA) or the Army Inspector General be requested to select, as "special interest" areas, those items GAO identified as problem areas.

The Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) expressed general agreement with GAO's findings and cited the actions taken by the Army to solve the problems. These actions included :

Initiation of a test to determine the degree of readiness that can be attained by affiliating Reserve units with similar Active Army units.

Development of a means to project Reserve Component training requirements.

Adjustment of the AAA audit concept to recognize changes to the Reserve Component structure and initiation of action to provide reports that will summarize the results of AAA audits for Army National Guard and Army Reserve commanders and for higher management levels.

(Report to the Congress, B-148167, Jan. 7, 1970)

173. Repair and Maintenance of Public Schools.—The District of Columbia's per pupil cost of repairing and maintaining school buildings was significantly higher than other school systems' costs, the cost of painting work performed by its painters was higher than the cost of similar work performed under contract, its work force took about 96 percent more time to do certain repair and maintenance work than had been estimated, and school custodians were not performing minor maintenance work.

GAO recommended that information provided by the District's accounting system be used more effectively through analyzing and comparing costs and labor hours on in-house projects with those on contract work, where feasible, and with advance estimates; also, that criteria be developed prescribing the repair and maintenance work to be performed by school custodians.

District officials subsequently informed GAO that they had developed a system for analyzing and comparing costs and labor hours on in-house projects with those on contract work, where feasible, as well as a system for comparing actual costs with advance estimates. They also stated that criteria had been established re-

lating to minor maintenance work to be performed by school custodians. (Report to the Congress, B-118638, Nov. 18, 1969)

174. Consolidation of Insurance Field Office Functions.—GAO determined that a single Veterans Administration (VA) insurance field office would require less employees, space, and equipment than the two existing offices. It was estimated that the reduced resource requirements of a single office would save the Government about \$872,500 annually during the initial years after a consolidation and as much as \$1,118,700 each year beginning January 1974. Nonrecurring costs of the consolidation would be about \$2.5 million; however, within 3 years accumulated savings would exceed these costs.

A consolidated insurance field office at Philadelphia, Pa., rather than St. Paul, Minn., could be achieved at a lower cost without a reduction in service. In addition, such a consolidation would affect fewer employees and would result in less temporary disruption of operations.

VA stated that GAO would be advised of the Administrator's position on the recommendation that the St. Paul insurance operations be consolidated with the existing operations at Philadelphia as soon as the decision process was completed. (Report to the Congress, B-114859, Sept. 29, 1969)

175. Work Schedules of Mobile Unit Employees.—The Post Office Department has made provision in the 8-hour day of railway and highway post office employees for an allowance of 1 hour and 35

minutes for performing duties, such as stamping facing slips and preparing labels, while away from the mobile units. Because of changed operating conditions, most of the duties have been or could be eliminated or reduced. It was estimated that the layoff allowance cost the Department about \$3.8 million in fiscal year 1969.

GAO recommended that the Department establish realistic work schedules for mobile unit employees based on an evaluation of the duties required under current operating conditions. If the Department believes it is desirable or necessary to change the law relating to the layoff allowance to fully implement the recommendation, the Department should request the necessary legislation from the Congress.

The Post Office Department agreed that conditions have changed substantially since the law authorizing the layoff allowance has been in effect and that the 1-hour, 35-minute daily allowance may be in excess of current needs. The Department stated that there had been an 80-percent reduction in the number of mobile unit employees since February 1967 and that it is continuing to make changes in its mail transportation plan which will replace mobile unit service by more effective modes of transportation.

The Department stated that, if it found that a certain amount of mobile unit service would be needed indefinitely, it would consider whatever adjustments were appropriate. Although there has been a significant reduction in layoff allowance costs since 1967, GAO believes that timely corrective action is needed inasmuch as costs are still substantial. (Report to the Congress, B-114874, Feb. 26, 1970)

PAY, ALLOWANCES, AND EMPLOYEE BENEFITS

Federal Employees' Health and Insurance Programs

176. Payment to Insurance Company Based on Fixed Percentage of Gross Premiums.—The Civil Service Commission's group insurance policy with the Metropolitan Life Insurance Company provides that Metropolitan be reimbursed for the actual operating expenses of its administrative office of the Federal employees' group life insurance program. In addition, the insurer is to receive an annual allowance for "other expenses" determined by use of a fixed percentage of gross premiums. On this basis, the amount charged for "other expenses" would increase, without limitation, in direct proportion to increases in total gross premiums and without regard to actual expenses incurred.

GAO recommended that the Commission initiate action to amend the group policy to provide that all amounts to be charged by Metropolitan as reimbursement for its expenses be limited to necessary expenses incurred under the group life insurance program, determined on an equitable and reasonable basis with proper justification and accounting support.

The Chairman of the Commission advised GAO in March 1970 that Metropolitan had been asked to explore the practicability of changing the accounting for this item to a cost finding basis. (Report to the Congress, B-125004, Feb. 3, 1970)

177. Accounting for Funds Held by Insurer.—The Civil Service Commission's group insurance policy with the Metropolitan Life Insurance Company requires the insurer to furnish the Commission an annual accounting of transactions, including the status of the contingency reserve funds Metropolitan is authorized to hold. The annual accounting does not show the status of certain funds related to the group life insurance program which were held by Metropolitan in addition to the contingency reserve. Also, the policy does not specifically provide for the return to the Commission, in the event of policy discontinuance, of any portion of such funds to which the program may be rightfully entitled.

GAO stated that there was a need for Metropolitan to report systematically to the Commission on all funds related to the group life insurance program, including those outside the contingency reserve. Such reporting would enable the Commission to more effectively administer the program activities. The Commission agreed to arrange for such reporting.

GAO also recommended that the group insurance policy be amended to provide that, in the event of discontinuance of the policy, all funds relating to the program which were held by Metropolitan outside the contingency reserve and to which the program has a vested interest be returned to the Commission, after consideration of all charges accrued under the program. The Commission agreed to review this matter during its next audit of Metropolitan with a view to clarifying the policy if necessary. (Report to the Congress, B-125004, Feb. 3, 1970)

178. Amounts Charged for Converting From Group Insurance Policy to Individual Policy.—Federal employees may convert their group life insurance to individual life insurance policies when they are separated from Government service or under certain other conditions, without a medical examination. The Civil Service Commission's group policy with Metropolitan Life Insurance Company is charged for the increased mortality risk expected under the individual policies at the rate of \$65 for each \$1,000 of group insurance converted. The conversion charges are paid into a conversion pool to which other insurers for whom Metropolitan acts as agent also contribute.

Although about \$1.6 million had been distributed to the insurance companies over a 3-year period from balances remaining in the pool, the Commission had not made any independent evaluation of the reasonableness of the conversion charge to the life insurance program. GAO recommended that the Commission satisfy itself, through independent evaluation, that the conversion rate constitutes a reasonable charge for the excess mortality risk borne by the insurers.

The Chairman, Civil Service Commission, advised GAO in March 1970 that the Commission would un-

dertake an evaluation of the conversion rate in accordance with this recommendation, and that the results of such evaluation would be considered by the Commission in future contract negotiations with Metropolitan. (Report to the Congress, B-125004, Feb. 3, 1970)

179. Impact of Expected Annual Deficits Under Beneficial Association Insurance Operations.—Under the Civil Service Commission's group life insurance policy covering former members of certain Federal employees' beneficial associations, cash deficits aggregating about \$91 million were expected to occur over the estimated 35-year remaining life of these operations. The Commission had no plans to finance this accumulating deficit, which would reduce the funds that would otherwise be available in the Employees' Life Insurance Fund and also would result in a loss of interest earnings on such funds.

In order for the Commission to be in a position to appraise the impact of these expected deficits on the financial status of the regular insurance program, GAO recommended that the Commission include the deficiency of the beneficial association insurance in its periodic actuarial valuations for the regular insurance.

In March 1970 the Chairman, Civil Service Commission, advised GAO that the Commission would include the beneficial association deficiency as a liability in a valuation which was about to be made to test the sufficiency of the premium level being charged to the employees and the Government. The Chairman stated that the resulting premium would cover such liability. (Report to the Congress, B-125004, Feb. 3, 1970)

Government-Furnished Housing, Lodging, and Meals

180. Rental Rates for Employee Housing.—GAO's survey of the administration of Government-owned employee housing by selected bureaus of the Department of the Interior showed that, although rental rates were generally set in accordance with Bureau of the Budget (BOB) Circular No. A-45, Revised, and the Department's manual, the rates at certain locations covered in the review were not established in accordance with the applicable criteria.

In some cases, isolation deductions from basic rental rates, granted to ameliorate the effect of unusual transportation costs, were established at the maximum amount permitted by the BOB circular rather than at the maximum amount permitted by the departmental

manual, which was lower. In other cases, the isolation deductions were excessive because the nearest established community offering minimum acceptable services was not used as the base community for calculating the deductions, as required by the circular.

The Department advised GAO that it agreed with these findings and had taken action to have the isolation deductions for the involved locations recomputed and the rental rates for the housing units revised accordingly. (Report to the Secretary of the Interior, B-114868, Mar. 2, 1970)

181. Per Diem Rate When Lodging Is Furnished.—From September 1967 through August 1968, the Department of Justice did not reduce the per diem rate for certain deputy U.S. marshals on a temporary assignment although the rate should have been reduced because lodging was furnished by the Government. As a result these deputy marshals were overpaid about \$32,000.

Department officials agreed that the rate paid was not in accordance with the Standardized Government Travel Regulations or the regulations of the Department and stated that action had been taken to reduce the per diem rate paid to deputy marshals on temporary duty assignments when meals and/or lodging are furnished by the Government.

GAO suggested that, in addition to recovering the overpayments, the Department should review temporary assignments of other deputy marshals to ascertain whether overpayments had been made where meals and/or lodging were furnished by the Government. (Report to the Attorney General, June 10, 1970)

Travel Advances and Allowances

182. Use of First-Class Air Travel.—GAO's examination into the use of first-class air travel by Department of Labor employees indicated a need for strengthening administrative procedures to insure compliance with the Standardized Government Travel Regulations and applicable departmental regulations. In many instances, the use of first-class air travel had not been authorized in advance or justified on travel vouchers. Accordingly, GAO recommended that the Department reemphasize to its officials and other employees the need for compliance with regulations concerning the justification and approval of first-class air accommodations. (Report to the Assistant Secretary for Administration, Department of Labor, May 25, 1970)

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183. Automobile Mileage Reimbursement Rate.—The Department of Justice reimburses U.S. marshals and their deputies 10 cents a mile, regardless of the number of miles traveled, for use of their personally owned automobiles on official business. The average mileage per person ranged from about 4,560 annually in one district to about 48,120 in another district.

According to the General Services Administration, the cost per mile of operating interagency motor pool cars decreases as the number of miles driven increases. The Department of Agriculture, the Internal Revenue Service, and the Department of Housing and Urban Development have established mileage reimbursement rates which decrease as the number of miles traveled increases. If the Department of Justice had adopted a similar rate structure, savings of about \$369,000 to \$424,000 could have been realized during fiscal year 1969 on automobiles other than those operated in the District of Columbia.

GAO recommended that the Department of Justice establish a mileage reimbursement rate when the use of privately owned automobiles is necessary which would decrease as the number of miles traveled increased. The Department should also consider giving the marshals and deputy marshals the option of using interagency motor pool vehicles, where available, for official business. (Report to the Attorney General, June 10, 1970)

Pay, Allowances, and Benefits—General

184. Maintenance of Attendance and Leave Records.—In the Metropolitan Police Department (MPD), District of Columbia Government, about 19 percent of the leave records GAO examined contained errors resulting in overstatements and understatements of employees' leave balances.

In the District of Columbia General Hospital, Department of Public Health, 50 percent of the time and attendance records examined contained errors which resulted in overpayments and underpayments to employees as well as overstatements and understatements of leave balances.

Also, adequate procedures for determining and recording actual duty hours had not been established for either full-time or part-time medical officers of the District of Columbia Department of Public Health. Department officials informed GAO that in many cases the hours shown on the records were not the actual

duty hours worked but were the medical officers' scheduled tours of duty which were established to entitle the officers to accrue and use sick and annual leave. As a result, GAO was unable to determine whether medical officers actually worked the number of hours for which they were paid or the accuracy of their leave balances.

District officials informed GAO that steps would be taken to resolve the problem in the Police Department through stronger centralized control and adequate instructional classes on a regular basis. Also, the Public Health Department has been holding training sessions for time and attendance clerical personnel and that supervisory review of the biweekly time and attendance reports has been instituted.

Department of Public Health officials proposed procedures which would provide that each medical officer and his supervisor would periodically establish realistic tours of duty on a written schedule. Any deviations from this schedule would be noted and certified by the medical officer and his supervisor. (Reports to the Chief of Police, MPD, Oct. 21, 1969, and to the Acting Director, Department of Public Health, Nov. 7, 1969, and May 7, 1970)

185. Justification and Administration of a Special Cost-of-Living Allowance.—A special cost-of-living allowance has been paid to certain U.S. civilian employees stationed in the Republic of Vietnam. This special allowance was in addition to a separate maintenance allowance paid to employees on behalf of dependents who were required to live elsewhere because of the dangerous conditions existing in Vietnam.

As of June 1969, about 85 percent of the employees included in GAO's review who were drawing a separate maintenance allowance were receiving also the special cost-of-living allowance in amounts ranging from \$100 to \$740 annually. The annual costs of these allowances for those agencies reviewed were about \$6 million and \$1 million respectively.

Although the reason that the special cost-of-living allowance was established (December 1965) is unclear, one of the primary considerations was apparently to reimburse employees for costs incurred in visiting their dependents residing elsewhere. Legislation passed by the Congress in December 1967 provided for payment of travel expenses necessary for visiting dependents, but no action was taken at that time to discontinue payment of the special cost-of-living allowance. GAO, therefore, concluded that the State Department should reexamine the need for fur-

ther payment of the special cost-of-living allowance.

Also, administration of the special allowance needed improvement. The criterion used to determine entitlement to the allowance was too vague and ambiguous for proper administration because it did not specify the types of costs to be considered in determining eligibility. As a result, only 11 of the 43 individuals interviewed by GAO said that they had considered any specific expenses in applying for the allowance.

The special cost-of-living allowance was being granted on the basis of an individual's certification that his expenses exceeded specific amounts without a requirement for supporting documentation. Most of the agencies reviewed did not require a waiting period before an employee was eligible to apply for the allowance. GAO believed that without such a waiting period it would have been difficult, if not impossible, for any employee to make a valid certification of his additional expenses. Employees' certifications were not being kept current even though changed conditions could have resulted in a change in the employees' eligibility.

GAO proposed that the Secretary of State:

Reexamine the justification for continued payment of the special cost-of-living allowance and terminate the allowance if it can not be justified.

Establish an administrable criterion which specifies allowable expenses if the allowance is justified.

Establish procedures to insure effective administrative control which would be applicable to all agencies that authorize payment of the allowance.

The Department of State advised GAO on March 27, 1970, that on the basis of its study, action had been initiated to terminate payment of the special cost-of-living allowance in Vietnam effective April 18, 1970. Concurrently with this action the Department took steps to increase the separate maintenance allowance rates. The higher rates will lessen the impact resulting from the termination of the special cost-of-living allowance payments to employees in Vietnam. (Report to the Congress, B-160574, May 5, 1970)

186. Proficiency Pay and Variable Reenlistment Bonuses to Military Personnel in Officer Training Programs.—The Department of Defense is authorized by law to approve proficiency pay (PRO PAY) and/or payments of variable reenlistment bonuses (VRB) to servicemen possessing critical skills to induce them to remain in the military services. GAO made a review of the payment of these incentives to determine whether administration by the

military departments was in accordance with the intent of the Congress.

Servicemen receiving PRO PAY are required to be used in the skills on which their PRO PAY is based and, when assigned to duty not requiring the use of the skills, PRO PAY is to be terminated. The Navy had awarded about \$500,000 in PRO PAY in fiscal 1967 to 512 enlisted men enrolled in the Navy Enlisted Scientific Education Program, a 4-year college, baccalaureate degree program. In GAO's opinion these payments were inconsistent with the intent of the law and were improper because they were applied toward the support of officer candidate training rather than to the retention of men in the enlisted ranks who possessed critical skills.

Enlisted men who possess a critical skill are entitled to a bonus for their first reenlistment and may be paid an additional reenlistment bonus—the VRB—as a further incentive to remain in the service. The Navy in fiscal years 1967 and 1968 and the Air Force in fiscal 1967 had either paid, or obligated the Government to pay, a total of \$1 million in VRB to those who reenlisted for the purpose of enrolling in the Navy Enlisted Scientific Education Program or the Airman Education and Commissioning Program, an Air Force program similar to that of the Navy. Because those enrolled in these programs had reenlisted specifically for the purpose of meeting the obligated service requirements of the officer candidate training programs, rather than for the continued service in critical skills, the VRB payments to them also were improper and inconsistent with the intent of the law.

GAO did not find any evidence that improper payments of PRO PAY or VRB had been made to servicemen enrolled in the Army's officer candidate program.

The Department of Defense stated that instructions had been revised to preclude future improper payments of PRO PAY and VRB and that the Navy and the Air Force had taken action to discontinue the improper payments described in this report. (Report to the Congress, B-160096, Aug. 6, 1969)

187. Payments to Military Personnel in Advance of Regular Pay Days.—GAO reviewed the controls and procedures established by the Army to make sure that payments to its military personnel in advance of regular pay days—called casual and partial payments—were properly adjusted through subsequent payroll deductions. In January 1968, the Army

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discontinued its program for verifying the collection of such payments because of staffing limitations and because of other personnel ceiling restrictions imposed by section 201 of the Revenue and Expenditure Control Act of 1968. GAO's review covered the period January through June 1968.

GAO estimated that overpayments of about \$3.5 million were made during the 6-month period because certain of the casual and partial payments had not been deducted from the pay of the recipients in subsequent payroll periods. Contributing factors to loss of control over casual and partial payments included the following:

Individual financial records apparently were not adequately protected from unauthorized access and, in some cases, records of payments were lost or removed.

Army regulations did not provide for the maintenance of permanent records of the disposition of casual and partial payment documents.

There was a lack of uniformity in the disposition of casual payment documents when the paying office was unable to determine the new station of a recipient of a casual payment.

It normally took from 3 to 4 months to determine the duty station of a recipient of a casual payment and this resulted in additional handling and delay and in possible loss of pay documents.

Since 1966, the Department of Defense, in coordination with the military services, has been engaged in developing a Joint Uniform Military Pay System (JUMPS). One of the features of the proposed system is the computerized maintenance of pay accounts on a centralized basis. The Army-wide implementation of the proposed system, tentatively scheduled to be operable by January 1972, should improve control over casual and partial payments and reduce the incidence of overpayments. However, because the estimated losses under the existing system were so significant, GAO believed that immediate action to improve internal controls was needed. Several suggestions designed to improve internal controls were made and the Army took action on some of them. In addition, GAO recommended that:

The Secretary of Defense direct that the Army maintain its verification program at an acceptable level until an effective system of internal control over its payroll procedures has been established.

The Secretary of the Army consider the feasi-

bility of requiring the paying finance offices to institute followup controls for collecting casual payments.

The Secretary of the Army direct the Army Audit Agency to test periodically the procedures followed at all field installations in making and controlling casual and partial payments to make sure that the procedures are adequate.

The Army agreed generally with these observations and conclusions. Also, with the repeal of section 201 of the Revenue and Expenditure Act of 1968, which had imposed personnel ceiling restrictions, the Army reestablished its centralized program for verifying the collection of casual and partial payments. However, the program was supported only through fiscal year 1970 because of further planned reductions in manpower for economy reasons. In June 1970 GAO was advised that the program would be supported through fiscal year 1971. (Report to the Congress, B-125037, Apr. 1, 1970)

188. Per Diem Payments to Military Personnel on Extended Temporary Duty Assignments.—Student officers at the Army's Fort Rucker were required to reside ~~off~~ the base during 16 weeks of temporary duty because the Army, in accordance with Department of Defense regulations, considered the existing bachelor officers' quarters inadequate for their use. The Army paid the maximum cash allowance permitted for lodging—averaging about \$356 a month—although students returned questionnaires indicating that their lodging costs in the surrounding communities averaged \$145 a month. Fort Rucker officials were aware of lodging costs but had taken no action to bring the cash payments into line with the costs incurred by the students. Internal audit agencies of the Department of Defense had not reviewed the need to pay cash allowances for temporary lodging at Fort Rucker.

GAO estimated that about \$800,000 a year could be saved by reducing the cash allowances to the average reported costs incurred by students. It also estimated that savings from a minimum of about \$600,000 to as much as \$1.7 million could be achieved at Fort Rucker by other alternative methods of providing temporary lodging for the student officers:

Savings of about \$660,000 a year by earlier construction of new bachelor officers' quarters planned for incremental construction during fiscal years 1973 and 1974.

Savings of about \$1.7 million a year if existing

bachelor officers' quarters currently classified inadequate by the Army were renovated for use on a temporary basis.

Savings of about \$1 million a year by leasing mobile homes for use as bachelor officers' quarters.

Savings of about \$667,000 a year by changing the quarters assignment policy to require student officers to occupy adequate bachelor officers' quarters.

GAO recommended that :

The Secretary of Defense select a less costly method of providing temporary lodging for student officers at Fort Rucker.

The Secretary of the Army exercise his authority to reduce the per diem rate for lodging at Fort Rucker to a rate commensurate with the average lodging costs incurred by student officers.

The Department of Defense establish and monitor review procedures to insure that the military services are giving proper audit consideration to the necessity for paying cash allowances for lodging.

The Secretary of Defense consider the advantages of introducing simple techniques for controlling per diem payments such as a sliding scale, used by some Government agencies, which ties per diem rates to actual lodging costs.

The Army recently changed its quarters assignment policy at Fort Rucker to provide permanently assigned officers the option of either occupying adequate bachelor officers' quarters or residing off base. (Authorized cash allowances for quarters for permanently assigned officers are substantially less than those for officers on temporary duty.) This change in policy made adequate bachelor officers' quarters available for about 300 student officers and could result in annual savings of about \$600,000. Also, the Department of Defense agreed that audit emphasis should be placed on the necessity for payment of cash allowances and stated that the military services would include this aspect in their internal audit programs.

The Department of Defense generally did not concur in the suggestion that there be adopted at Fort Rucker, alternative, less costly methods of providing housing for use by student officers on a temporary basis. The Department cited the problems that would be involved, such as military construction priorities and procedures, constraints on the availability of funds, long range and Army-wide requirements for bachelor officers' quarters, and the interests of the individuals involved. GAO pointed out that about 700 officers on

temporary duty at Fort Rucker were still receiving cash allowances far in excess of their average reported lodging costs and that the Department should reconsider its decision. (Report to the Congress, B-146912, Mar. 3, 1970)

189. Overseas Dependents School System.--

Under the direction of the Department of Defense, the Overseas Dependents School System in the European area provides elementary and secondary education to about 102,000 students, in 224 schools in 14 countries, at an annual cost of about \$50 million. In GAO's review of the administration and operation of the school system, it noted several areas that needed improvement. Matters which appeared to warrant corrective action included :

Inaccurate student enrollment forecasts which serve as a basis for manpower and supply requirements.

Inadequate controls over courses taken by teachers under the educational leave program.

Inconsistencies in policies and practices regarding teacher housing.

Substandard classrooms in about 45 percent of the school facilities.

Inadequate procedures for setting school construction priorities.

Unrealistic restrictions on the use of substitute teachers.

Inconsistencies in staffing of the school supply function.

Inadequate controls over school inventories.

GAO noted situations where cost savings and/or improved efficiency would be possible (1) through consolidation of certain schools, (2) through greater use of the schools by dependents of employees of other departments and agencies of the U.S. Government and proper billing of tuition charges for such students, and (3) through incorporation of a private school in Athens into the school system.

GAO also noted several legal matters pertaining to the administration and operation of the school system:

The procedures for collecting tuition fees and the use of funds authorized under the Civilian Health and Medical Program of the Uniformed Services to provide special educational services to handicapped dependents were not in compliance with pertinent legislation.

There was no permanent authorizing legislation

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for the school system; authorization was derived from annual appropriation acts.

The Department of Defense was in substantial agreement with these findings and conclusions and informed GAO that corrective action either had been taken or was being considered. The Department did not agree, however, that the procedures for collecting tuition fees were not in compliance with pertinent legislation. The Department stated that the practice had been consistently recognized by the Congress and by the Bureau of the Budget and that it would include, in connection with any proposal for permanent authorizing legislation for the school system, specific authority for the practice. (Report to the Congress, B-131587, Sept. 4, 1969)

190. Employees' Suggestion Awards.—At the recommendation of the Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service, GAO made a review of the management and operation of the suggestion award portion of the Army Incentive Awards Program.

There were instances where :

Suggestions were not being processed promptly or effectively.

Suggestions having potential for wider application were not being given adequate dissemination.

Different criteria were being used among installations to compute estimated savings.

Suggestion files did not contain adequate documentation of the basis used to estimate savings.

Standards for issuing awards were being inconsistently interpreted.

Independent periodic reviews were not being performed by the installation internal review staffs.

It appeared that other programs being carried out had objectives or goals similar to those of the Incentive Awards Program.

GAO proposed that the Secretary of the Army:

Initiate procedures and instructions that would result in uniform practices for control and expeditious processing of suggestions.

Provide more detailed guidelines on the dissemination of information on suggestions having wider application.

Require that personnel responsible at the local level for processing suggestions be given the necessary training to insure their full awareness of their responsibilities and of the guidelines and instructions available to them.

Provide more specific criteria for computing estimated savings.

Require that suggestion files be adequately documented to support computed savings.

Take the necessary action to insure that installations have continuing programs providing for periodic internal reviews.

The Assistant Secretary of the Army agreed generally with GAO's findings and conclusions and summarized the actions initiated by the Army as a result of the report. The actions should result in significant improvements in the effectiveness of the Army Incentive Awards Program. (Report to the Congress, B-166802, Aug. 27, 1969)

AUTOMATIC DATA PROCESSING SYSTEMS

Acquisition of Automatic Data Processing Systems

191. Control Over Acquisition and Use of ADP Equipment by State Welfare Agencies.—The cost of automatic data processing (ADP) activities of State welfare agencies applicable to grant-in-aid programs under Titles I, IV, X, XIV, XVI, and XIX of the Social Security Act is financed in part by the Social and Rehabilitation Service (SRS), Department of Health, Education, and Welfare (HEW).

GAO reported that there was a need for SRS to monitor and approve the planning for ADP equipment prior to its installation in the State welfare agencies and to require more informative reporting of ADP activities by the State agencies to enable SRS to exercise more effective surveillance over such activities.

GAO recommended that :

Procedures be revised to require approval by SRS of proposed ADP equipment acquisitions by State and local agencies, preferably prior to any commitment for such acquisition by these agencies but, in any event, prior to installation of the equipment, and that this approval be made a condition of financial participation by SRS.

As the basis of such approval, SRS be required to make readiness reviews to ascertain the suitability and need of the ADP equipment proposed to be acquired and the capability of the State and local agency personnel to use the equipment.

SRS implement a more comprehensive reporting system by State and local agencies on their ADP activities and that the reports include information on costs, utilization and scheduling of equipment, volume and types of work loads, staffing of installations, and training of personnel.

SRS reappraise manpower requirements for monitoring the ADP activities of State agencies.

At June 30, 1970, SRS had not advised GAO of its intended action on these recommendations. (Report to the Secretary, HEW, B-164031, Feb. 24, 1970)

192. Interchangeability of Computer Components.—In June 1969, GAO reported on the results of its study of the acquisition by Federal agencies of peripheral equipment for use with automatic data processing (ADP) systems. The report pointed out that it was common practice for Government ADP managers to obtain all required ADP equipment from computer systems manufacturers even though certain items of equipment could be procured more economically from the original manufacturers or from alternate sources of supply.

GAO identified selected computer components that were directly interchangeable (plug-to-plug compatible) with certain other systems manufacturers' components and were available at substantial savings. A number of private organizations had installed available equipment of this type and had achieved substantial savings. Yet GAO found only a few instances where Federal agencies had availed themselves of this economical means of acquiring computer components. GAO expressed the belief that central agency leadership could provide impetus which would achieve similar savings in the Federal Government.

It was estimated that, if plug-to-plug compatible components were used to replace similar components rented by the Government, annual savings would be at least \$5 million. If such components were to be purchased, savings would exceed \$23 million.

In addition to the estimated savings in acquiring plug-to-plug compatible components, savings are also available in the acquisition of non-plug-to-plug components from sources other than the systems manufacturers. GAO estimated that the purchase cost of such components, then being leased for about \$50 million, from the systems manufacturers would be about \$250 million; whereas the acquisition price for similar components from an alternative source of supply probably would be about \$150 million, a difference of about \$100 million. However, the potential savings must be evaluated in light of costs associated with combining the components into a total computer system.

The report contained the recommendations that :

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The head of each Federal agency take action to implement steps requiring replacement of leased components that can be replaced with more economical plug-to-plug compatible units.

The Bureau of the Budget and the General Services Administration provide more specific guidelines for the evaluation and selection of plug-to-plug compatible equipment and for other components.

Pending the issuance of specific policies, the factors described in the report be used by Federal agencies to evaluate alternate sources of ADP equipment.

Inasmuch as third-party leasing arrangements generally result in savings in comparison with rental arrangements available from equipment manufacturers, the head of each Federal agency consider this method of procurement when purchase of the equipment is determined not to be advantageous.

The use of plug-to-plug compatible components for Federal ADP equipment is currently being studied by the General Services Administration. Present plans call for GSA to study also the acquisition of other components and peripheral equipment from alternate sources at a later date. GAO expressed the belief that the GS.4 study is important and that it should be accelerated to provide a basis for promulgating more specific policies for the guidance of Federal agencies in obtaining ADP components from the most economical source of supply.

In September 1969 GAO's report was given specific consideration by top Federal ADP managers at a conference on the selection and procurement of computer systems by the Federal Government. The conference was conducted at the Federal Executive Institute by the Bureau of the Budget and was attended by officials of the agencies which were major users of ADP systems in the Federal Government. The report of the conference, which summarized the consensus of the participants, contained the following statement.

Leased peripheral equipment components in systems now installed should be replaced by compo-

nents available from independent peripheral manufacturers or other sources if it is determined that such components are comparable, compatible, reliable, less expensive, and can be adequately maintained. Similar considerations should be given when adding to or modifying existing systems. These determinations should be made on a case-by-case basis in consideration of the particular circumstances that exist.

Also, on February 2, 1970, the Bureau of the Budget issued Bulletin No. 70-9 on the acquisition of peripheral components for installed ADP systems. The bulletin requires Federal agencies to review and make decisions on whether leased peripheral equipment components in computer systems supplied by the system manufacturer should be replaced with less costly equipment available from independent peripheral manufacturers or other sources. Some agencies have completed their reviews and have made replacements which have already resulted in substantial savings to the Government. (Report to the Congress, B-115369, June 24, 1969)

Utilization of Automatic Data Processing Systems

193. Centralization and Sharing of Computer Facilities.—Certain departments and agencies of the District of Columbia Government were acquiring their own computers or were contracting for data processing services although time for some of this work was available on existing District computer facilities. Also, more time would have been available and some duplication of data processing could have been avoided if the facilities had been operated more efficiently.

District officials agreed in general with GAO's findings, and corrective actions are being taken, or are planned, for expanded coordination of data processing and sharing of computer systems. (Report to the Congress, B-166723, July 31, 1969)

PROPERTY MANAGEMENT

Control Over Property

194. Management of Warehouse Inventories.—

GAO observed the following weaknesses in the management of warehouse inventories by the *Corps of Engineers* (Civil Functions), Department of the Army:

The inventories contained slow moving items and excess stocks.

Inventory values were not recorded for all items.

Some items were not accounted for in a manner to provide proper control.

In addition, retention of a certain warehouse may not have been warranted.

The Chief of Engineers implemented GAO's recommendations that (1) warehousing practices be reviewed to identify and correct those practices that resulted in maintaining inventories at levels beyond those necessary to meet operational requirements and in inadequate accounting for the inventories and (2) a determination be made as to the need for the cited warehouse. (Report to the Secretary of the Army, B-118634, Feb. 16, 1970)

195. Control Over Supplies Transferred Between Agencies.—In May 1967, GAO reported that a transfer of handtool and paint inventories from the Department of Defense (DOD) to the General Services Administration (GSA) showed a need for improved transfer procedures and greater coordination between the agencies. This transfer was the first of a series leading to a coordinated national supply system.

As a followup, GAO examined into the transfer on July 1, 1967, of stocks valued at about \$19.5 million and representing 52 Federal supply classes. Although DOD and GSA took considerable action to solve mutual problems relating to this transfer, some of the problems cited in GAO's previous report still existed.

Inventory tests at selected DOD depots after the transfer showed substantial quantity differences between GSA's recorded inventory and actual stocks on hand. After GAO brought these discrepancies to GSA's attention, DOD took physical inventories at several depots and compared their counts with GSA's inven-

tory records. These comparisons showed that stocks valued at about \$5 million had not been recorded on GSA's records and therefore were "lost" to the supply system. As a result, GSA purchased some identical stocks and did not, in some cases, fill requisitions promptly because it did not know that the items were on hand.

GAO concluded that these deficiencies arose because the transfer procedures adopted as a result of the previous report had not been effectively implemented with respect to the 52 classes.

GAO recommended that DOD and GSA:

Implement transfer procedures adopted as a result of the previous report.

Take physical inventories, based on up-to-date stock locator records, of all stocks to be transferred.

Take periodic physical inventories of stocks remaining in the custody of the transferring agency and transmit all resulting changes to the managing agency.

Show all GSA-managed stocks stored at DOD depots on GSA inventory records.

Both DOD and GSA agreed with these recommendations and advised that additional management controls would be applied to future transfers. (Report to the Congress, B-161319, Mar. 9, 1970)

196. Elimination of Nonessential Stock Items.—

The General Services Administration (GSA) did not have an effective program, nor did it have the necessary data, for eliminating nonessential items—inactive, low-demand, and uneconomical items—from its stock system through which it makes available common-use supplies and equipment needed by Federal agencies and Government-related organizations. Data gathered at GAO's request showed that there were over 15,000 items, valued at more than \$15 million, for which less than six orders were received during fiscal year 1969. No orders were received for about 6,275 of these items. Also, GAO cited examples where elimination of items which were more expensive than other available items with similar or identical characteristics could have saved up to \$768,000 in fiscal year 1969.

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ALUMINUM
(FSN 7110-264-5340)
CONTRACT COST \$39.00



SWIVEL CHAIRS

STEEL
(FSN 7110-782-3504)
CONTRACT COST \$22.00



ALUMINUM
(FSN 7110-264-5339)
CONTRACT COST \$27.00



STRAIGHT CHAIRS

STEEL
(FSN 7110-782-3502)
CONTRACT COST \$16.00



Chairs of comparable styles but varying widely in price retained in the General Services Administration's stock system.

GSA agreed that there were opportunities to realize significant savings by removing nonessential items from its stock system and stated that appropriate programs had been implemented. GAO recommended that GSA internal auditors review the progress being made under these programs. (Report to the Congress, B-114807, May 22, 1970)

197. Management of Magnetic Computer Tape.—The National Aeronautics and Space Administration (NASA) established a policy in January 1967 that data on magnetic tapes—either analog data tapes or master digital data tapes—be kept until all meaningful information had been extracted. However, in May 1968, NASA's Goddard Space Flight Center was still requiring the indefinite retention of data on both types of magnetic tape. As a result, Goddard was not realizing the savings in procurement costs that were possible through the reuse of certain of the tapes. There were about 700,000 tapes at Goddard and in storage at June 30, 1969. After GAO brought this matter to NASA's attention in August 1968, Goddard established procedures in December of that year to implement the stated policy.

The procedures, however, did not provide for release from storage of analog data tapes containing data transmitted by satellites that had not been processed for use by experimenters and which, apparently, were not considered to be essential to the experimenters. At June 30, 1969, Goddard was storing 11,450 unprocessed analog data tapes.

Also, Goddard did not have procedures for controlling and retrieving new tapes and data tapes furnished to scientists for their use in analyzing experiment results. Scientists had about 230,000 data tapes and an unknown quantity of new tapes in their possession at the end of fiscal year 1969.

Further, Goddard was not realizing the savings possible from a greater use of rehabilitated tape because of its limited capacity for rehabilitating tapes. Goddard purchased over 400,000 reels of analog and digital tape at an average cost of about \$20 and \$11 a reel, respectively, in 1969. Since Goddard's cost to rehabilitate used tapes was less than \$5 a reel, GAO recommended that NASA consider expanding the rehabilitation facility, increasing the staffing and length of the workweek, and contracting for the offsite rehabilitation of used tapes.

NASA took significant action to improve control over magnetic tapes and agreed to study ways of increasing Goddard's rehabilitation capacity. NASA also

agreed that further improvements were feasible. (Report to the Congress, B-164392, Apr. 22, 1970)

198. Maintenance of Vehicle Utilization Records.—The National Radio Astronomy Observatory, Green Bank, W. Va., operated for the National Science Foundation (NSF) by an association of universities under a cost-reimbursable contract, did not maintain adequate utilization records for Government-owned motor vehicles. For most of the 63 vehicles at the Observatory the records did not show the mileage or hours of operation. Also, no studies had been conducted by the Observatory with regard to utilization of or the need for the vehicles included in the fleet.

NSF instructions require that its contractors establish suitable records for the management, maintenance, and control of Government-owned motor vehicles. General Services Administration guidelines recommend that utilization records show mileage or hours of operation for each vehicle in order to identify excess vehicles, measure operating efficiency against predetermined standards, and provide data necessary to reduce maintenance costs by rotating like vehicles with high and low mileage.

The Observatory's Assistant Director for Administration agreed that adequate utilization records had not been maintained and stated that greater effort would be devoted to this area of management. Also, in response to GAO's recommendation, NSF advised that its audit office would be instructed to follow up on the Observatory's action during its scheduled visits to the Observatory. (Report to the Director, NSF, Mar. 31, 1970)

199. Management of Property Acquired for Distribution as Economic Assistance.—During an examination of the Agency for International Development's (AID) administration of the excess property program in Kenya and Pakistan GAO identified areas needing management improvements, such as:

- Evaluating the recipient countries' current capability to maintain and use excess property prior to approving such property for delivery.

- Assuring that property is received in country in an operable condition.

- Assuring that proper records of accountability are maintained either by the missions or recipient countries.

- Conducting periodic inspections of recipient countries' maintenance and use of property.

- Performing periodic audits of the program.

Idle U.S.-Provided Equipment in Pakistan*2½-ton Cargo Trucks—M35**Jeeps*

GAO made no specific recommendations in view of the actions initiated by AID to correct the problem areas; however, it was suggested that the Administrator assure himself that needed improvements are made.

AID commented that the missions in Kenya and Pakistan were taking actions to improve management of the program in those countries. AID also instructed all missions to restrict further acquisitions of excess property if proper management of property already received was not evident. AID issued guidelines designed to assist missions in developing and maintaining a sound management system for excess property acquired by cooperating countries. These guidelines generally covered the improvements identified by GAO. (Report to the Congress, B-146995, Dec. 5, 1969)

200. Military Supplies in the Far East.—In 1966 GAO examined the responsiveness of the military supply and distribution systems in the Far East and observed that they were not sufficiently flexible to meet emergency demands efficiently. In 1967 GAO examined Army supply management in Vietnam and observed that the system had supplied the combat needs of military units in Vietnam despite adverse conditions. However, the high level of support was achieved through costly and inefficient supply procedures. As a result of these reviews the military departments stated that they either had taken or would take action to improve effectiveness of their supply systems. To appraise the results of these actions, GAO made a review at various supply activity locations in the Far East and at inventory control points in the continental United States.

The military services had continued to provide adequate support to units in the Far East—particularly the combat forces in Southeast Asia. The supply systems in the Far East, however, as well as the supporting systems in the continental United States, continued to be costly and inefficient.

GAO recognized that it was unrealistic to expect the maintenance of inventory records under combat conditions in Vietnam to be at a level of accuracy as high as that expected at other locations. However, the records at locations outside of Vietnam were also not accurate enough to be relied upon for effective management. GAO found:

Substantial differences between inventory records and stocks on hand.

Use of inappropriate methods and incorrect data for computing quantities of stocks needed and resultant excesses and shortages in stock levels.

Inadequate controls over repairable components and equipment and resultant failure to return the items for repair and reissue.

An excessive volume of high priority requisitions and resultant increased handling cost.

Supply problems at supply activities in the United States and resultant shortages at Far East locations.

GAO recommended that the Secretary of Defense:

Take steps to reduce the number of unit-of-issue changes and stock number changes.

Require implementation of the inventory control procedures prescribed in January 1969.

Provide a method for consistent application in

computing quantities of stock needed and require all supply activities to follow the method.

Establish uniform procedures and criteria for review of items on order but not received and for prompt cancellation of unneeded quantities.

Establish a direct-exchange program for all repairable items of high value and critical need in the Army. This would require that, when a new item is issued, either the unserviceable item is returned or the nonreturn is documented.

Establish procedures for challenging the validity of the assignment of high priority to requisitions and procedures for reporting the results to management.

Require major supply activities to establish procedures designed to bring to the attention of top level management those supply situations and their causes, which are potentially critical.

The Assistant Secretary of Defense (Installations and Logistics) agreed in general with GAO's findings and recommendations and said that actions had been taken or were planned to improve the conditions noted in the report. He did not believe, however, that there was a need for procedures for bringing greater management attention to bear on potentially critical supply situations, but GAO pointed out that existing procedures were not detecting potential problems before they became critical. (Report to the Congress, B-160682, Apr. 21, 1970)

201. Industrial Plant Equipment Retained for Possible Future Use.—GAO reviewed the overall management, by two Army Commands, of industrial plant equipment reserved to meet production contingencies in time of war. Such equipment, referred to as "packages," is either retained in factory production lines ready for use or set aside in storage not ready for immediate use. A package includes the equipment necessary to produce a specific artillery gun, rifle, tank, ammunition casing, or similar items. About 34,000 pieces of industrial plant equipment, valued at about \$500 million, were assigned to 176 packages.

In a number of cases, the packages retained by the Army did not meet the Department of Defense (DOD) criteria for retention. Some of the packages provided the capability for production in quantities which exceeded the planned production requirements or for production of items for which there were no planned requirements. Other packages did not include enough equipment to meet the planned production requirements. Also, for some of the packages, the specific con-

tractor or Government plant where the planned production requirements were to be met had not been designated.

During one 6-month period, the possibility existed that the Government had purchased new equipment—estimated to cost about \$6 million—while similar equipment, not needed and not reported as being available for redistribution, was held in the packages of the two Army Commands covered in this review. Conversely, some of the equipment needed in the retained packages had been either transferred or loaned to others.

GAO recommended that the Secretary of Defense take steps to make sure that packages which do not meet DOD criteria for retention are not retained and that the industrial plant equipment not needed is reported promptly to permit redistribution to meet other requirements. It was also recommended that the Secretary of the Army insure compliance with established procedures for identifying and reporting excess industrial plant equipment in packages and for making loans of such equipment.

DOD concurred in general with GAO's findings and recommendations and stated that:

A limited number of packages would be reviewed for factors to be considered in a full scale evaluation of the need for the packages.

Army commanders had been directed to make sure that industrial plant equipment not identified with a package is reported to the Defense Industrial Plant Equipment Center as excess.

The proposed program to inventory each package and verify its readiness—scheduled to begin in 1970 and to be completed in 1973—would be speeded up.

(Report to the Congress, B-140389, Apr. 7, 1970)

202. Projections of Future Requirements for Military Aircraft Engines.—GAO made a review of the method used by the Air Force and the Navy to compute spare aircraft engine requirements. The review was undertaken primarily to evaluate the adequacy and reasonableness of the method—common to both services—used in computing their planned spare aircraft engine requirements for fiscal year 1969. The Army was not included because at that time it was using a different method.

The method used by the Air Force and Navy for computing the requirements included two factors—the depot stock factor and the safety factor—which were duplicative and provided quantities of engines to

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meet similar or identical contingencies. The purpose of the safety factor was to provide spare engines if order and shipping time were exceeded or the repair cycle took longer than planned. The depot stock factor was not supported by studies but, based on the explanations GAO obtained, its purpose was to provide for essentially the same types of contingencies.

GAO estimated that elimination of the depot stock factor could have reduced the planned procurement for fiscal year 1969 by about 200 engines valued at about \$35 million. Future needs could be correspondingly reduced. GAO proposed that the Secretary of Defense:

Direct appropriate officials to reevaluate the need for the duplicate factors.

Take prompt action to reduce the planned procurement of engines by the quantities attributable to the duplicate factors.

The Department of Defense stated that the contingency factors in question were not duplicative and that, notwithstanding its position on the duplication of the contingency factors, it was exploring another method of computing requirements for spare aircraft engines.

GAO's analysis of the Department's reasons for believing the factors in question were not duplicative did not support the Department's position. Accordingly, GAO recommended that the Secretary of Defense reconsider the position taken on GAO's proposals. (Report to the Congress, B-132989, Sept. 9, 1969)

203. Projections of Future Requirements for General Supplies.—In prior reviews GAO had observed that the inventories of the Defense Supply Agency included substantial stocks in excess of needs. A review was made of the policies, procedures, and practices followed by the Agency in determining its needs for stock. The review covered three of the five inventory control points, called Defense Supply Centers, under the management of the Agency.

As of December 31, 1968, over \$250 million worth, or about 23 percent, of the stocks managed by the three Centers were excess to all known military needs. The accumulation of a substantial portion of these excesses could have been avoided had the Agency maintained tighter controls over the following situations:

The Centers, in projecting future requirements on the basis of experienced demand, included in the experienced demand "one-time-need" requisitions and requisitions which the issuers had canceled.

The Centers initiated procurement of new stocks

without adequately considering all stocks on hand and without considering the experienced length of time to obtain delivery from the suppliers.

GAO proposed that the Agency revise its procedures for determining stock levels at all Centers to insure that:

Requisitions for stock are identified as recurring, nonrecurring, or a special requirement.

Stock on hand is properly considered.

Requisitions for unusually large quantities are questioned, confirmed by the issuers, and appropriately considered in computing future requirements.

Initiation of procurement actions are based on the experienced, rather than the standard, length of time to obtain delivery from the suppliers.

The Department of Defense stated that changes were being made to reduce the accumulation of stocks and that a new computer system, being installed by the Agency, will establish uniform data processing procedures at all inventory control points. If used effectively, the system should result in improvements.

The Department of Defense stated that it would continue to include nonrecurring demands for stocks in its projections of future needs. GAO suggested that the Department reconsider this point and include nonrecurring demands only in those instances where inclusion is clearly justified. (Report to the Congress, B-146828, May 28, 1970)

204. Receipt and Storage of Military Supplies and Equipment.—GAO made a review to evaluate the effectiveness of the policies, procedures, and practices of the military services and the Defense Supply Agency for the processing, storing, and recording of materiel received at major supply activities. GAO found that:

Many depots could not readily identify and locate materiel recently received, and in the process of being stored, which was needed immediately to fill requisitions.

Materiel received was not stored and recorded within the time established by the Department of Defense.

Records maintained by the depots to identify and locate stored materiel contained significant inaccuracies.

As a result, shipments of materiel to fill requisitions were delayed and increased costs were incurred to locate and account for materiel that was on hand.

GAO proposed that the Department of Defense:

Require that receipt processing systems at depots provide that materiel receipts not be reported to inventory control points for posting to stock records until the goods have been placed in storage and reflected on stock location records, unless adequate techniques and data processing capabilities exist at the depots to facilitate identification and location of unstored materiel.

Direct that management information systems be improved and used to identify delays in the processing to insure that receipts are stored and recorded within prescribed time standards.

Require that depot quality control programs be expanded and used as a means to identify and correct the causes of inaccuracies in inventory records.

The Department of Defense generally concurred in these findings and proposals for corrective action and cited certain actions taken to effect improvements. GAO believes that the actions, if properly implemented, will bring about the needed improvements. (Report to the Congress, B-146828, July 30, 1969)

205. Official Use of Government Vehicles.—Statutory provisions prohibit the use of Government vehicles for other than official purposes, but do not define the term “official purposes.” It is stated, however, that official use shall not include the transportation of employees between their homes and places of employment, except in cases of medical officers on out-patient medical services and in cases of employees engaged in fieldwork. Suspension or removal from office is provided for Federal employees who willfully use or authorize the use of any Government vehicle for other than official purposes.

A review conducted in 10 departments and six independent agencies showed that regulations on official use of Government vehicles differed substantially and generally did not provide adequate guidance to Federal employees. Some agencies’ regulations consisted essentially of a restatement of the statute, while others identified specific uses as either official or unofficial. Also, instances were noted where a particular vehicle use was authorized as official by one agency but not authorized by another.

GAO concluded that these inconsistencies resulted in inequities to Federal employees and that, while the statute was adequate, there was a need for a Government-wide policy defining official and unofficial use of Government vehicles. It was recommended that the

Bureau of the Budget issue policy guidelines to all Federal agencies defining the official purposes for which Government owned or leased vehicles may be used. The Bureau agreed to formulate such guidelines. (Report to the Director, Bureau of the Budget, B-159210, Nov. 25, 1969)

Construction, Maintenance, Repair, and Overhaul

206. Maintenance of Military Aircraft.—The Navy and the Air Force have about \$40 billion invested in various models of aircraft and spend about \$5.5 billion annually to keep them in operation. In previous work GAO had found that the Navy and the Air Force were following substantially different procedures and practices in the maintenance of their aircraft.

A review was made to evaluate and compare the way the two services scheduled their maintenance operations; GAO did not evaluate the quality or the effectiveness of the maintenance actually performed. The review was based on the F-4, a supersonic, all-weather aircraft, because it is used by both the Navy and the Air Force.

GAO found that:

The Navy could realize savings by following the Air Force practice of basing organizational inspections and maintenance (that performed by the operating units in support of their own operations) on flight hours rather than on elapsed days.

The Navy could reduce downtime by following the Air Force practice of performing maintenance on a cycle or phased basis, between periods of use of the aircraft, rather than performing the entire scheduled maintenance at one time.

Had the Navy followed procedures similar to those of the Air Force for organizational maintenance, the equivalent of 40 additional F-4 aircraft could have been available to the Navy during fiscal year 1968 and organizational maintenance costs might have been reduced in fiscal years 1967 and 1968. (The Navy’s costs for that period were about \$4.3 million higher than the costs incurred by the Air Force for an equivalent number of aircraft.)

Neither the Navy nor the Air Force had given sufficient recognition to the results of studies, and their own experience, in determining the frequency of depot level maintenance (that which is major and

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is performed at industrial-type maintenance depots). Less frequent depot maintenance appeared to be warranted in some instances.

GAO suggested that :

The Navy test the phased maintenance concept which the Air Force had implemented and reach a decision regarding its applicability to the F-4 and other aircraft in the Navy.

The Air Force make a servicewide review and evaluation of the frequency with which depot level maintenance is performed on individual F-4 aircraft and establish realistic criteria for the frequency of such work.

The Navy and the Air Force establish procedures to insure continuing review of the criteria for the frequency of depot level maintenance of firstline aircraft important to strategic, tactical, defense, or logistics posture.

The Department of Defense agreed in substance with these suggestions. The Navy also agreed with the suggestions and started action to put them into effect.

The Air Force pointed out that its existing procedures for annual reviews of the frequency of depot level maintenance served the purpose of the review and evaluation GAO had suggested. The Air Force stated, however, that it had changed the existing procedures to insure that the summaries of the annual reviews include the rationale and the analytical findings which are the bases of decisions. Although this change may be beneficial, GAO believes that the Air Force should adopt reporting procedures to insure that effective action is taken on the results of the annual reviews. (Report to the Congress, B-152600, May 7, 1970)

207. Modifications of Military Aircraft.—Aircraft are modified to make them safer, more effective, operationally compatible with newer equipment, and easier to maintain. The Army spent about \$120 million for kits, parts, and tools for modifying aircraft during the fiscal years 1965 through 1968. GAO reviewed the procedures and techniques used in Army management of its aircraft modification program.

In many cases, modifications—including those classified as being urgent—were not applied promptly. For example, an urgent modification work order involving safety of the aircraft was issued in February 1967; however, a year later the Army records showed that 223 of the 1,650 affected aircraft had not been modified. As late as August 1969, 24 were still unmodi-

fied and 17 of the unmodified aircraft had been flown an average of 75 hours in that month.

The volume of modification work orders resulted in work loads beyond the capacity of maintenance activities. More effective management review of proposed modifications was needed to insure that work loads could be accomplished within the specified time.

The Army found it necessary to procure more modification kits than were required, on a one-for-one basis for aircraft, because of apparent loss of kits by local using units. Also, modifications were delayed in some instances because kits were not received in time for economical installation concurrently with overhaul of the aircraft.

GAO recommended that :

The Army require responsible commanders to specifically justify delays in modification work.

Adequate controls be established to insure that no modification work order is approved unless a statement of all prerequisites for completion of the work as well as anticipated penalty for nonadoption of the modification is prepared and reviewed.

Recommendations for management of aircraft modifications, as presented by Army Aviation Systems Command **officials** to the Army Materiel Command and the Army Deputy Chief of Staff for Logistics, be given immediate attention by the Army.

The Army improve management controls to insure that officials who are responsible for significant modification programs have continuous visibility of the status of modification work order kits from the time the contractor delivers them to the time they are used.

GAO also made other recommendations to improve management of modification kits.

The Army implemented the third recommendation, but took no position on the other three recommendations pending completion of its own study and of a joint study of the subject being performed by the three military departments. (Report to the Congress, B-157373, Jan. 14, 1970)

208. Construction Standards.—GAO reviewed the procedures and practices followed by the General Services Administration (GSA) in maintaining overall construction standards, used in developing plans and specifications for individual public building construction projects, to determine whether GSA

had been updating and improving its standards to keep them abreast of regional offices' construction experience.

Because individual project specifications were revised by field staffs with little apparent thought given to whether the construction standards should also be revised, GAO suggested that approval of changes to project specifications which are based on GSA construction standards be accompanied by a consideration of whether changes in the related standards are also warranted.

GSA revised its procedures for processing project change orders to require that copies of all change orders and the reasons for the changes be channeled to the central office for review and revision of the construction standards where warranted. GAO believes that the value of the revised procedures would be enhanced if the regional offices would suggest revisions and submit their reasons when they believe the standards should be revised. (Report to the Administrator of General Services, B-118623, Mar. 17, 1970)

Utilization and Disposal of Property

209. Management of Military-Owned Household Furnishings Overseas.—The Department of Defense has household furnishings representing an investment of over \$500 million, of which about \$340 million worth are in overseas locations, including Alaska and Hawaii. Funds approved for procurement of new furnishings under the overseas household furnishings program have averaged about \$17 million in each of the fiscal years 1967 through 1969. GAO reviewed the overseas household furnishings program to identify areas where management improvement appeared to be needed.

Each of the military departments was practically independent in managing and operating its portion of the program and there was a need to improve centralized management of the program. At 11 installations GAO found that the military departments were:

Using differing and inadequate methods for determining requirements, which resulted in the accumulation of excess inventories of about \$1.6 million.

Providing different styles and finishes of furnishings, thereby hindering consolidated procurements and interservice use of furnishings.

Using differing methods and criteria for repairing, maintaining, and disposing of unserviceable furnishings.

GAO suggested that the Secretary of Defense take those actions necessary to:

Establish uniform realistic methods of computing furnishings requirements.

Promulgate uniform criteria for determining whether to repair or replace furnishings in conjunction with a requirement for comparing the relative advantages of repairing either in-house or by contract.

Promote procurement and use of furniture which is alike in style, color, and finish by all installations in the same geographical area.

Increase the use of consolidated procurements when advantageous to do so.

Establish policies and procedures to increase interservice transfer and use of excess furnishings.

Emphasize the need for review of household furnishings activities either by members of his own staff or by other internal audit groups.

The Department of Defense concurred in these conclusions and suggestions and stated that immediate steps would be taken in line with GAO's suggestions. (Report to the Congress, B-167490, Nov. 25, 1969)

210. Management of Military-Owned Household Furnishings in the Contiguous United States.—In November 1969 GAO issued a report to the Congress on management of household furnishings at military installations overseas, including Alaska and Hawaii.

In a similar review at military installations within the contiguous United States, GAO found that the instruction of the Department of Defense governing the providing of household furnishings did not contain adequate guidance to insure adherence to the policy established by the Bureau of the Budget. The Bureau's Circular No. A-15, as revised in May 1962, states that Government-owned furnishings are not, with certain exceptions, to be provided in housekeeping quarters within the United States. In authorizing the exceptions, the Bureau specified the conditions which must exist, or the determinations which must be made, to justify providing furnishings under the exception.

Tests at six military installations of the three military departments showed that the installations did not have procedures to insure that individuals receiving Government-owned furniture were entitled to such

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furniture under the provisions of the Bureau's Circular No. A-15.

Officials of the Department of Defense advised GAO that the practice of providing furniture at installations within the contiguous United States would be phased out, as stocks were depleted, and that procurement of new furniture had been curtailed.

GAO suggested that the Secretary of Defense:

Prescribe procedures to be followed by the military departments to insure compliance with the policy of the Bureau of the Budget on providing furniture for housekeeping quarters within the United States.

Emphasize that military personnel must rely on the use of their own furniture.

Consider transferring unneeded furniture, being retained for housekeeping quarters within the United States, to nonhousekeeping quarters and to overseas housekeeping quarters where needed.

The Department of Defense concurred and, on March 11, 1970, issued instructions to the military departments which restrict the providing and repairing of supplemental Government-owned furniture and should facilitate redistribution within the United States. These instructions reflect more closely the intent of the policy of the Bureau of the Budget. (Report to the Congress, B-167490, May 14, 1970)

211. Transfer of Excess Property to Military Affiliate Radio System.—The Military Affiliate Radio System was established by the Department of Defense (DOD) to provide auxiliary communications to military, civil, and disaster relief officials on a local, national, and international basis during periods of emergency. Generally, the System handles a large volume of quasi-official messages and phone calls for the morale of military and U.S. Government civilian personnel throughout the world. Units of the System operate within each of the military departments. The System includes radio stations, clubs, and operators, both civilian and military.

Transfers of excess and surplus Government property are made to the System on a priority basis primarily to supplement and improve the operating capability of member stations. GAO made a review to ascertain the validity of the System's requirements for transferred property and the adequacy of its controls over the property.

During fiscal year 1968, the Army, Navy, and Air Force Military Affiliate Radio System organizations

acquired excess and surplus Government property originally costing \$56 million. Substantial quantities of the property were not needed by the organizations that acquired them but were needed, in many instances, by other Government agencies. The Military Affiliate Radio System exercised little control over either the property acquired and held in its warehouses or the property issued to individual members. Equipment was issued to individual members without consideration of their needs, or their ability to use certain types of equipment, and to former members no longer entitled to receive it.

GAO recommended that the Office of the Secretary of Defense establish adequate procedures and controls that would:

Limit the transfer of excess and surplus property to the Military Affiliate Radio System to only that property which is needed and can be used by member stations to improve their operating capability.

Provide adequate accountability for excess and surplus property transferred.

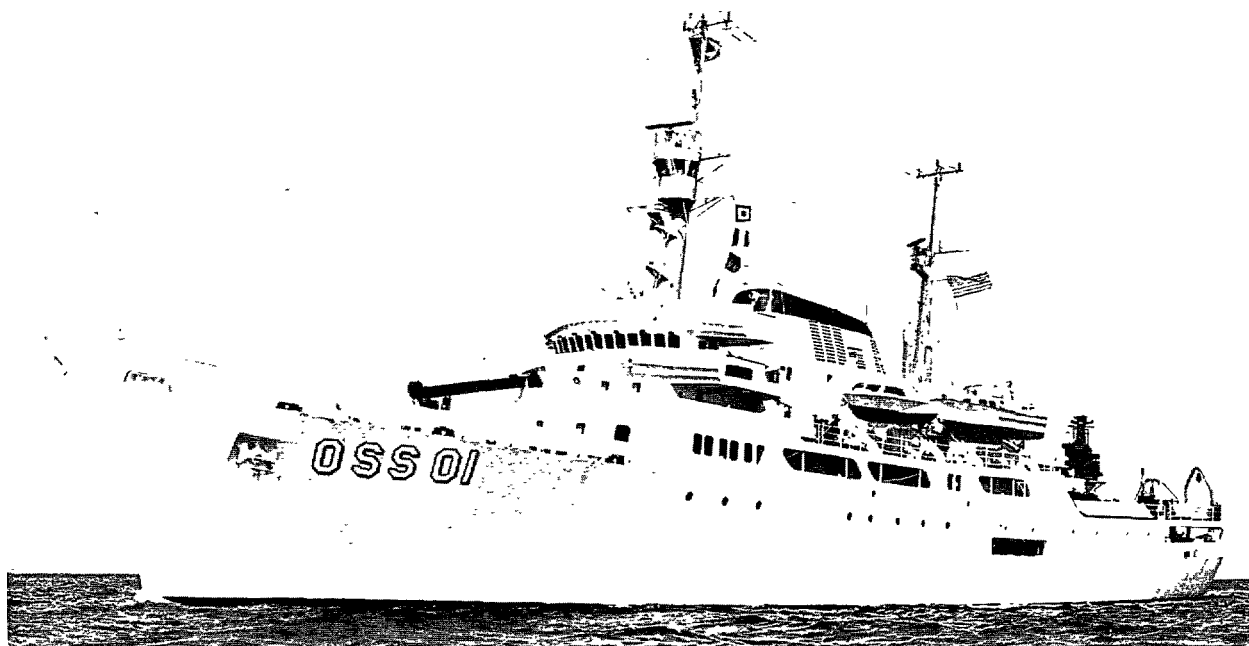
Require accountability over property issued to members and recovery of property from former members.

Promote increased emphasis by management review groups, including internal auditors, on review of Military Affiliate Radio System activities.

DOD concurred in GAO's conclusions and recommendations and advised that more effective, uniform procedures would be developed for the acquisition, distribution, and use of Government property by the System and that action had been taken to increase the surveillance of the operations of the System by management review groups. (Report to the Congress, B-144239, Feb. 27, 1970)

212. Utilization of Oceanographic Research and Survey Ships.—Oceanographic research and survey ships operated by the Environmental Science Services Administration (ESSA), Department of Commerce, averaged much less time at sea than did similar research ships operated by the Military Sea Transportation Service (MSTS). GAO concluded that, through increased usage, ESSA could carry out more missions or could release four ships. Further, planned ship requirements could be reduced by seven ships.

Estimated savings in operating costs of about \$888,000 annually could be achieved if four fewer ships were to be used and savings in ship construction costs of about \$59.3 million could be achieved over a 10-year



The Ocean Survey Ship, Oceanographer, operated by the Environmental Science Services Administration.

period if planned ship requirements were reduced by seven ships.

GAO recommended that, in order to obtain increased ship usage, the Secretary of Commerce require ESSA to establish a manpower reserve similar to that maintained by MSTs and to schedule available and necessary research and survey work in warm water areas during winter months. It was also recommended that increased utilization be considered when construction of additional ships is planned.

GAO was informed that utilization would be increased as more funds and personnel became available and that acquisition of new ships would be deferred until the present fleet reached optimum utilization. (Report to the Congress, B-133188, Jan. 16, 1970)

213. Use of Competitive-Bid Basis for Selling Silver to Small Business Concerns—GAO suggested that, in order to obtain the full benefits of price competition from the sale of excess silver to small business concerns, the Treasury Department require the General Services Administration (GSA), the selling agent, to sell such silver on a sealed competitive-bid basis but at not less than an established minimum acceptable price. Sales to small business concerns were being made on a noncompetitive basis at the lowest bid price ac-

cepted in concurrent competitive sales in which small business concerns had broadly participated.

GAO estimated that future sales to small business concerns on a competitive-bid basis could result in about \$505,000 additional revenue to the Government for the remaining quantity of silver available for sale.

The Treasury Department stated that it was in accord with GAO's general conclusion that the best assurance to the Government that the silver would be disposed of at a fair price was to obtain competitive bids, and that the suggested method for sales of silver to small business concerns had been adopted. (Report to the Congress, B-163084, Aug. 4, 1969)

214. Management of Government Owned and Leased Real Property Overseas.—GAO's review of the foreign buildings program of the Department of State was directed primarily toward examining into the efficiency and effectiveness with which real property—i.e., land and buildings—had been acquired and managed by the Department for its overseas diplomatic and consular establishments and for certain other Government agencies. GAO's work was performed at nine different foreign posts located in Europe, the Far East, Southeast Asia, Africa, and South America.

GAO concluded that there was a need for improve-

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ment in a number of areas in the foreign buildings program : (1) there was a need for better overall management controls of the program, (2) there were accumulations of Government-owned property not currently required but retained for a remote future need, (3) there were instances of valuable properties being used uneconomically, (4) there were acquisitions of building designs that were not adequately coordinated with planned construction, (5) embassy officials had not required lessors to adhere to stipulations relative to alteration, improvement, and repair of property held under short term lease conditions, (6) Department regulations do not provide guidance as to the magnitude of costs for alterations, improvements, and repairs on Government-owned property that are to be capitalized, and (7) there was a need for more accurate and informative real property records and reports in order that the program can be more effectively administered. In addition, there was a need for greater internal audit surveillance by the Department.

GAO's recommendations were aimed at strengthening the administration and management of the foreign buildings program. Department of State officials

agreed in principle with most of the recommendations and stated that these findings and recommendations have made a constructive and useful contribution toward long term improvement of the foreign buildings program. The Department's plan of action to meet the objectives of the recommendations includes improvement of guidelines and criteria, modification of the accounting system, development of a management information system, and improvement of evaluation and planning activities.

In addition to the recommendations to the Department, GAO proposed two matters for consideration by the Congress. Opportunities exist at several locations for substantial savings in leasing and building operation costs by disposing of uneconomical properties and constructing new buildings. Also, the Department has acquired real properties which either were not presented to the congressional authorization committees for consideration and approval or cost substantially more than cost estimates originally presented to the committees. GAO reported these matters so that the Congress could consider strengthening its controls over the foreign buildings program. (Report to the Congress, B-146782, Sept. 30, 1969)

TRANSPORTATION ACTIVITIES

Traffic Management

215. Use of Government-Owned Shipping Capacity.—In April 1965 GAO reported to the Congress on the operation of duplicate ship services between New Orleans and the Panama Canal Zone by the Panama Canal Company and the Military Sea Transportation Service. The 1965 report showed that an estimated \$1.2 million could be saved annually through consolidation of transportation services—discontinuing use of one of two military-operated vessels, curtailing substantially the use of commercial carriers, and making greater use of the Panama Canal Company ship, the *SS Cristobal*, for transporting Government cargo and passengers between New Orleans and the Canal Zone.

GAO's followup review showed that the military subsequently stopped using both of its vessels and then shipped the bulk of the military supplies to the Canal Zone on commercial vessels although quantities of the dry cargo could have been carried by the *SS Cristobal*. GAO estimated that the Department of Defense (DOD) could reduce the transportation costs of the Government by about \$700,000 annually by making optimum use of the dry-cargo capacity of the *SS Cristobal*.

GAO believes that DOD did not make optimum use of the vessel because of actions taken at various operating levels within the Department of the Army which had the effect of restricting such use. GAO therefore proposed that the Secretary of Defense implement earlier DOD instructions that optimum use be made of the available cargo capacity of the *SS Cristobal*.

The Deputy Assistant Secretary of the Army (I&L) concurred in this finding and proposal. He advised GAO in November 1968 that military representatives in New Orleans had been requested to increase military dry subsistence shipments from 100 to 500 measurement tons on southern sailings of the *SS Cristobal*. However, the military continued to make only limited use of the *SS Cristobal*. It was not until March 1969, after GAO had called a meeting to formulate an effective

working agreement between all parties concerned, that military operating officials began to implement instructions to make optimum use of the cargo carrying capacity of the *SS Cristobal*. (Report to the Congress, B-114839, Nov. 6, 1969)

216. Direct Routing of Military Mail Shipments.—GAO's review of military mail shipments from Okinawa to Vietnam and Thailand during calendar year 1968 showed that most of the shipments were backhauled to Japan and then shipped on commercial or military aircraft to final destination. This circuitous routing was used even though there was sufficient unused space on direct Military Airlift Command flights to Vietnam to accommodate these shipments and there was adequate intratheater airlift to accomplish subsequent delivery of the Thailand shipments. In addition, the Department of Defense (DOD) was incurring costs for intermediate handling of mail shipments in Japan and was delaying the delivery of the mail by using the circuitous route.

GAO proposed to DOD that available space on direct Military Airlift Command flights be used to move military mail when direct commercial U.S.-flag service was either not available or was inadequate. In response, DOD officials informed GAO that substantial amounts of mail were being carried on military aircraft from Okinawa to Vietnam and Thailand and that the circuitous routing of mail had been discontinued. GAO subsequently determined that use of the more direct military flights resulted in savings of about \$606,000 in the cost of commercial air transportation, for the 12-month period ended September 30, 1969. (Report to the Congress, B-165683, Mar. 31, 1970)

217. Improved Selection of Air Carriers—The Department of Defense (DOD) uses two types of commercial air carriers to transport its air-eligible cargo: direct air carriers, engaged directly in the operation of aircraft; and indirect air carriers, carriers who do not actually operate aircraft. The latter type includes air freight forwarders.

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Air freight forwarders, as indirect air carriers, provide services similar to those of the direct air carriers, except for actual aircraft operation. In some cases forwarders operate their own vehicles to provide pickup and delivery service to and from airports. Some also maintain terminals at large airports for the purpose of consolidating small shipments.

GAO's review was directed to determining whether DOD was using the most economical commercial air service consistent with the needs of the military departments and no effort was made to evaluate the overall air cargo program of DOD.

Substantial savings could be achieved on future air shipments through a more informed and careful selection of air carriers. Estimated savings of over \$1 million could have been achieved in fiscal year 1967 if direct air carriers had been used, where less costly, rather than air freight forwarders. In GAO's opinion, DOD did not realize compensatory benefits, such as faster delivery time, to offset the higher cost of using the forwarders' services.

During the review, GAO made several proposals designed to reduce transportation costs through a more informed selection of air carriers for the movement of air cargo. Action should be taken to insure that installation transportation officers obtain routing advice from the Military Traffic Management and Terminal Service on domestic air shipments as prescribed by regulations, and that transportation officers be furnished the necessary rate and service information to enable them to select the low cost air carriers. It was also proposed that international air freight forwarders be required to obtain approval of the originating transportation officer before using a foreign-flag carrier to transport a DOD shipment.

Department of Defense officials agreed that improvement could be made in the selection of air carriers and that the transportation expertise of the Military Traffic Management and Terminal Service should be used more frequently and extensively.

The actions taken by DOD subsequent to GAO's proposals have resulted in annual savings of about \$973,000. (Report to the Congress, B-162840, June 15, 1970)

218. Air Force Logistics Airlift System.—The Air Force contracts for a logistics airlift system with commercial carriers to ship high priority cargo within the continental United States. This system, known as LOGAIR, costs the Air Force about \$35 million

annually. Its primary function is to provide daily support for all firstline weapon systems of the Air Force. Another important function is to provide support to Air Force bases in remote areas which lack adequate commercial transportation. GAO made a review of the management of the LOGAIR system.

The cargo capacity requirements for LOGAIR were not forecast accurately. On some routes, more capacity was scheduled than needed; on others, less was scheduled than needed. The cost of day-to-day operations could be reduced by:

Establishing controls to encourage prompt revisions to existing routes thereby avoiding the costs of chartering extra flights to provide additional capacity.

Reducing the number of flights to some stations.

Using truck service instead of LOGAIR service between stations near one another.

Attaining greater utilization of available aircraft space by improving the procedures for making cargo available for movement by LOGAIR.

GAO proposed that the Air Force Logistics Command (AFLC) devise a system that would enable it to accumulate accurate and complete data with respect to the movement of cargo eligible for air transport throughout the continental United States. GAO further proposed that (1) AFLC study the possibility of using automatic data processing equipment to assist in solving the difficult problem of constructing and revising LOGAIR routes that provide optimum service at minimum cost, (2) the Air Force evaluate the need for more than one daily LOGAIR flight to locations other than its Air Materiel Areas and Aerial Ports of Embarkation, and (3) AFLC take appropriate action to insure that the potential benefits of LOGAIR are fully exploited by its users. In addition, the Secretary of Defense should see that an analysis is made of the possibility of substituting truck service for LOGAIR between stations less than 100 miles apart.

The Air Force concurred in general with GAO's findings and proposals and stated that:

Action has been started to standardize procedures and improve accuracy of forecasts of airlift requirements.

The frequency of LOGAIR service to one station had been reduced.

Five installations previously served by LOGAIR will be served by truck operations from other nearby LOGAIR stations.

Corrective actions to attain more effective utilization of LOGAIR aircraft had been initiated at several installations and will be applied to other LOGAIR stations where practicable.

(Report to the Congress, B-157476, Dec. 18, 1969)

219. Operation of Government-Owned Vessels.—During a period of considerable reduction in sealift requirements in support of military activities in Southeast Asia, additional costs of about \$658,000 were incurred because Government-owned vessels were placed in reduced operational status at commercial piers rather than being placed at Maritime Administration, Department of Commerce, national defense reserve fleet sites. GAO believes that this situation occurred because neither Maritime nor the Department of the Navy considered using reserve fleet

sites even though, considering operational requirements, their use would have resulted in overall savings to the Government.

GAO recommended that the Maritime Administrator take action with the Navy to provide for either Maritime or Navy to determine, prior to placing each vessel in reduced operational status, whether use of a reserve fleet site, rather than a commercial site, would be preferable.

GAO was advised in March 1970 that Maritime and the Navy had reached an understanding that all ships going into reduced operational status will be placed in a reserve fleet site. This understanding will become part of a revised memorandum of agreement between Maritime and the Navy. (Report to the Congress, B-118779, Feb. 24, 1970)

MISCELLANEOUS

User Charges

220. Rental Charges for Occupying Space in Government Building.—The Farm Credit Administration (FCA) had, as a long standing practice, occupied space in the South Building of the Department of Agriculture in Washington, D.C., on a rent free basis and had not assessed the Farm Credit System organizations it supervises for the cost of this space.

On the basis of a review of the laws pertaining to FCA and the related legislative histories and Government policy as expressed in Bureau of the Budget Circular No. A-25, GAO stated the opinion that, although it is legally proper for FCA to occupy space on a rent free basis, FCA should assess the organizations it supervises a reasonable charge for the space occupied by FCA. The legislative history further indicated that the Congress intended that the Government eventually be relieved of all costs of administering the Farm Credit System.

GAO recommended, therefore, that FCA assess the organizations of the Farm Credit System for the cost of the space and that the receipts be covered into the general fund of the Treasury. GAO's recommendation was being considered by FCA. (Report to the Governor, FCA, B-114806, Aug. 26, 1969)

221. Costs of Services of a Public Benefit Nature Recovered Through User Fees.—The accounting records maintained by the individual divisions of the Consumer and Marketing Service (C&MS), Department of Agriculture, showed that for fiscal years 1967 through 1970 about \$8.6 million in costs identified by C&MS as having been incurred for services of a public benefit nature had been or would be recovered through fees assessed users of agricultural commodity inspection and grading services. Recovery of these costs appeared to be contrary to the general Government policy which, in effect, provides that costs of providing services of a public benefit nature are to be financed from appropriated funds.

C&MS receives appropriated funds each year to finance the cost of furnishing inspection and grading services of a public benefit nature, but its requests for

such funds are based on previous years' appropriations rather than on estimates of the cost of furnishing such services. Its budget justifications have not contained specific information as to the amount of such costs that are to be recovered through fees.

GAO believes that C&MS's practice of recovering more than one-half of the public benefit costs through fees should be brought to the specific attention of the Congress. The Administrator, C&MS, agreed with the recommendation that future budget justifications clearly show the estimated amount of such costs applicable to the inspection and grading of agricultural commodities that will be recovered through fees charged to users of the services. (Report to the Administrator, C&MS, Mar. 30, 1970)

222. Computation of Fees for Providing Inspection and Grading Services.—The method followed by the Consumer and Marketing Service (C&MS), Department of Agriculture, in establishing charges for agricultural commodity inspection and grading services did not accurately recover the cost of providing such services. For example, in one C&MS division, charges during fiscal years 1968 and 1969 under cooperative agreements with State agencies exceeded C&MS related costs for supervision and overhead, while charges for inspection and grading performed by Federal employees were too low to provide for full cost recovery.

Also, two of three methods used by C&MS in computing fees for its various types of Federal inspection and grading services may have resulted in inequitable charges to users of such services.

GAO recommended that, pending the development and implementation of a revised accounting system, C&MS make studies to develop information to establish charges which adequately recover costs and are equitable. It was also recommended that the revised accounting system provide for the accumulation on a current and recurring basis of all direct and indirect costs by individual voluntary inspection and grading activities with appropriate segregation of public benefit and special benefit costs.

The Administrator, C&MS, informed GAO that, because the new accounting system was scheduled for full operation in the near future and for other reasons, he preferred not to make the cost studies recommended but that the revised accounting system would provide the information GAO had suggested. (Report to the Administrator, C&MS, Mar. 30, 1970)

223. Charges for Calibration Services.—The National Bureau of Standards, Department of Commerce, calibrates instruments for the Nation's scientific and industrial community—both in Government and private industry—and charges fees to recover the cost of providing this service.

Fees charged during fiscal years 1966 through 1968 for calibrating instruments for private industry were not high enough by about \$824,500 to fully recover operating costs, building depreciation, and departmental overhead. The Department of Defense, however, was overcharged \$806,000.

After receiving a draft of GAO's report, the Bureau began on July 1, 1969, to charge revised rates which should result not only in the Bureau's recovering its costs for calibration services but in equitable charges as between Government agencies and private users.

Inasmuch as the Bureau did not include a factor for building depreciation and departmental overhead in its charges for other work performed for private industry, GAO recommended that a factor for these costs be included. (Report to the Congress, B-115378, June 18, 1970)

224. Fees Charged for Special Benefits.—Fees charged by the Immigration and Naturalization Service (INS), Department of Justice, during fiscal year 1967 for various services fell short of recovering costs by about \$600,000 overall. Fees for certain services were insufficient, by about \$2.8 million, to recover costs while fees for other services exceeded costs by about \$2.2 million.

The underrecovery of costs was attributable principally to the use of fees that had been established by statute. Although the law was changed in October 1968, to authorize the Attorney General to set these fees, none had been revised as of June 30, 1969. Other underrecoveries occurred because INS, in computing costs for services for which it had authority to set fees, did not use current average salary costs and time requirements and did not include all fringe benefit costs or certain other indirect costs.

The Department informed GAO in April 1969 that

its cost computation procedures had been revised, that cost data were being reviewed to insure that all pertinent current costs would be included, and that it would release a new fee structure.

Also, GAO estimated that fees charged by U.S. marshals during fiscal year 1968 for serving processes for private litigants were insufficient by about \$470,000 to recover costs. This estimate was based on statistical analyses because the marshals did not maintain records on the number of processes served, the fees collected, or the costs incurred in providing the services.

The Department informed GAO in April 1969 that it was considering proposing legislation, as GAO had recommended, which would authorize it to adjust the fees or would revise the fees, which are presently prescribed by law, and that it concurred with GAO's recommendations for determining costs of services provided by the marshals.

During fiscal year 1970, the Department increased 11 INS fees, some of which previously fell short of recovering costs, but did not reduce any of the fees which had exceeded costs. By the close of the fiscal year, the Department had not proposed legislation to revise the fees charged by the marshals. (Report to the Congress, B-125051, Oct. 7, 1969)

225. Unrecovered Costs of Address Correction Service.—GAO estimated that, of the costs incurred by the Post Office Department for providing address correction service to postal patrons in fiscal year 1969, at least \$2.8 million was not recovered from users of the service. The service consists of sending a notice of address change to the sender of any piece of mail undeliverable as addressed if the new address is known by the post offices.

The Postmaster General concurred in the proposal that the Department make a cost study to ascertain the fees that should be charged to recover the full costs of this service and stated that such a study had been undertaken. (Report to the Congress, B-114874, May 22, 1970)

Communications

226. Use of Federal Telecommunications System.—The Washington Metropolitan Area Transit Authority (WMATA) purchased commercial telephone service from the Chesapeake and Potomac Telephone Company at an average monthly cost of \$2,508. GAO estimated that similar telephone service, sup-

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plied by the Federal Telecommunications System (FTS) would cost approximately \$1,052 a month.

After this matter was brought to his attention, the General Manager of WMATA informed GAO that conversion to FTS was tentatively scheduled for July 1, 1970. (Report to the General Manager, WMATA, July 15, 1969)

227. Establishment of a Unified National Communications System.—On August 21, 1963, the President directed the establishment of a unified National Communications System (NCS) in order to strengthen the communications support of all major functions of the Government. The objective was to provide necessary communications for the Government under all conditions ranging from normal situations to national emergencies and international crises, including nuclear attack.

GAO found that many of the issues and problems that were hampering attainment of the objectives of the NCS were of long standing and in need of early resolution. The interest and concern expressed over the years by a number of congressional committees have not been dealt with in bringing about improvements in the policy formulation and direction of the telecommunications resources of the Government. In the years that have elapsed since the President directed that the NCS be established, hundreds of millions of dollars have been expended annually in the procurement, construction, operation, and maintenance of component networks with little effective centralized direction and control.

Except for the President of the United States, there was no individual or organization in the Government with the authority, stature, and resources to provide the essential policy, direction, and control required to establish a unified system. Authority and responsibility were widely dispersed among the various departments and agencies involved. The functions of basic planning and general design control were performed largely in an agency-oriented environment rather than in an NCS frame of reference. Consequently there was no basic plan to chart the course of the NCS from its present confederation of agency networks to the goal of a unified system. But even if there were such a plan, there was no effective or authoritative overview to insure that agency planning and funding conformed with the plan.

GAO recommended that the President give consideration to a major realignment, of the existing structure and organizational arrangements of the NCS,

which would establish an organization with sufficient stature, authority, and resources to provide a strong central authority as a focal point in telecommunications matters.

The Special Assistant to the President for Telecommunications assured GAO that the recommendation would be given thorough consideration. Other executive branch agencies and offices also recognized the need for a strengthened policy-making structure. There was, however, a diversity of opinion among them as to the organizational activity to which certain of the roles and functions should be transferred.

Reorganization Plan No. 1 of 1970, dated February 9, 1970, established a new Office of Telecommunications Policy in the Executive Office of the President. This action was in accordance with GAO's recommendation that a central policy-making focal point for Government telecommunications be established. Thus far, however, action has not been taken to transfer the roles and functions of the Executive Agent and Manager of the National Communications System to the new Office. (Report to the Congress, B-166655, July 14, 1969)

228. Claims for Termination of Communications Services.—GAO reviewed the settlement of claims for termination of services, involving the use of specially constructed communications facilities and equipment, because it learned that the Defense Communications Agency (DCA) could not evaluate effectively the acceptability of amounts charged for such terminations by American Telephone and Telegraph (AT&T) and its associated companies.

Rates and charges for interstate communications services are established in tariffs filed with the Federal Communications Commission (FCC) by communications carriers. When such services involve the use of specially constructed facilities or equipment—as was the case in the settlement of claims GAO reviewed—the tariffs specify that the user must pay for the service for a specified number of years, generally no more than 10 years. If the user discontinues the service before the specified period has expired, he must pay a termination charge. The maximum amount of the termination charge is specified in the tariff and is based upon cost estimates prepared by the carrier. FCC believes that termination settlements should be based upon the unrecovered portion of actual cost as long as the appropriate portion of the maximum termination liability is not exceeded. However, it did not require the carrier to submit actual cost data.

Although many other carriers provided cost data to DCA or permitted access to their records, AT&T and its associated companies did not determine or provide the actual costs applicable to the terminated portion of specially constructed facilities and equipment. DCA therefore had no way of evaluating the acceptability of termination charges proposed by AT&T and its associated companies, except by applying broad gauge comparisons of construction costs or by comparing charges of one carrier with those of another carrier.

In two cases in which special circumstances existed and cost data were made available by one of AT&T's associated companies, the actual costs of the interstate portions were less than the estimates—by 24 percent in one case and 40 percent in the other. GAO therefore concluded that obtaining actual cost data in such cases could result in smaller and more reasonable termination settlements with resultant savings to the Government.

GAO suggested that the Secretary of Defense ask the FCC to revise its regulations to require that carriers seeking settlements for termination of defense contracts for communications services must provide DCA with the actual costs of the specially constructed facilities and equipment applicable to the contracts being terminated. It was further suggested that the Secretary ask the FCC to provide the necessary audit effort to insure that cost data submitted are accurate.

Prior to the issuance of GAO's report, DOD and AT&T held a series of meetings to devise mutually acceptable corrective procedures. These meetings produced an agreement with respect to specially constructed *facilities* under which DOD (1) can elect to have termination charges for specially constructed facilities based on actual costs, (2) will be provided supporting cost data, and (3) will be allowed access to records. FCC representatives indicated informally that procedures proposed by DOD and AT&T to implement the agreement would be acceptable. AT&T notified DOD that a revised tariff incorporating these procedures would be filed with FCC to become effective about November 15, 1969. Similar action with regard to terminations involving special *equipment* was initiated but corrective procedures had not been agreed upon at the time of issuance of GAO's report.

On the basis of the progress made to date, GAO is hopeful that DOD and AT&T can reach a mutually satisfactory solution to this problem that will be acceptable to FCC. However, if a satisfactory solution is not reached, GAO believes that DOD should follow the

suggestion, stated above, that it ask the FCC to revise its regulations. (Report to the Congress, B-167611, Dec. 9, 1969)

Miscellaneous Matters—General

229. Cost Reduction and Management Improvement Program.—In March 1965, the President directed the head of each department and agency in the executive branch to put into effect a formal, organized program to reduce the cost of Government. GAO reviewed the operation of the program—designated as the cost reduction and management improvement program—in five departments and agencies in view of the program's significance and long range nature. The objective was to inquire into the manner in which it was being carried out and to identify opportunities for improvement.

Such a program could be a useful tool of management in developing cost consciousness in employees of the Federal Government and in motivating the development of cost-saving ideas and techniques. GAO found that in some departments and agencies the program had been aggressively implemented but in others little effort had been made to use the program forcefully for the purposes intended.

Although many worthwhile savings were reported, improvement was needed in all aspects examined. GAO's report to the Congress summarized its findings and recommendations which had previously been included in separate reports to the department and agency heads.

In addition, GAO made a number of suggestions informally to the Bureau of the Budget for modifying or clarifying its instructions to the departments and agencies for carrying out the program. (Report to the Congress, B-163762, Oct. 15, 1969)

230. Stimulating industry in insular Possessions.—As a means of stimulating the development of light industry in the insular possessions, the tariff schedules of the United States provide that articles produced in the possessions may, if certain criteria are met, be imported free of duty assessed by the Bureau of Customs, Treasury Department. Fifteen watch companies in the Virgin Islands made use of this provision.

Four of the 15 watch companies operating in the Virgin Islands as of June 30, 1968, not only benefited from the importation of their products into the United

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States dutyfree, but also benefited from 10-year grants of tax exemption and subsidy by the Government of the Virgin Islands. GAO questioned the need for continuing the tax exemption and subsidy benefits for the four companies because of their substantial profits.

In response, the Department of Commerce expressed the view that the watch companies no longer needed the stimulus of tax exemption and subsidy to continue profitable operations, and the Governor of the Virgin Islands stated that the **tax** exemption and subsidy grants for the four companies should not be extended or renewed. (Report to the Congress, B-114898, Mar. 25, 1970)

231. Cash Discounts on Purchases.—In fiscal year 1969 the Bureau of Indian Affairs, Department

of the Interior, lost an estimated \$163,000 in available discounts through (1) delays in processing vouchers at field and area offices and at the data center where all vouchers are processed for payment and (2) failing to take discounts offered in cases where vouchers were processed within the discount period. These conditions resulted from inadequate control, supervision, and review.

In response to GAO's finding, the Bureau issued instructions which provide for clear identification of vouchers on which discounts are offered, expeditious handling of such vouchers, monthly reporting of lost discounts, and assignment of a Bureau official to oversee the analysis of the lost discounts report. (Report to the Commissioner, Bureau of Indian Affairs, Apr. 28, 1970)

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| 906 | Central personnel management | 8 |
| 908 | Law enforcement and justice | 133. 162. 163. 181. 183. 224 |
| 909 | National capital region | 92. 103. 113.137.170.173.184.193. 226 |
| 910 | Other general government | 132 |

FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE. FISCAL YEAR 1970

Collections and Other Measurable Savings

(000 omitted)

| | Collections | Other measurable savings | Total |
|---|-------------|--------------------------------|-----------|
| DEPARTMENTS | | | |
| Army | \$697 | \$72. 049 | \$72. 746 |
| Navy | 553 | 7. 859 | 8. 412 |
| Air Force | 219 | 34. 020 | 34. 239 |
| Defense | 170 | 36. 842 | 130. 1 2 |
| Agriculture | 2 | 137 | 139 |
| Commerce | 22 | 50. 400 | 50. 422 |
| Health, Education, and Welfare | 973 | 1. 069 | 2. 042 |
| Housing and Urban Development | . | 2 987 | 2. 987 |
| Interior | 7 | 3. 642 | 3. 649 |
| Justice | . | 189 | 189 |
| Labor | 3 | 2. 500 | 2. 503 |
| Post Office | 231 | 1. 000 | 1. 231 |
| State (including AID, Peace Corps, and USIA) | 55 | 1. 981 | 2. 036 |
| Transportation | 363 | 916 | 1. 279 |
| Treasury | . | 1. 035 | 1. 035 |
| AGENCIES | | | |
| Atomic Energy Commission | . | 304 | 304 |
| Civil Aeronautics Board | . | 16 | 16 |
| Civil Service Commission | 25 | 28 | 53 |
| District of Columbia Government | . | 80 | 80 |
| Federal Mediation and Conciliation Service | . | 1 | 1 |
| General Services Administration | 1 | 9,082 | 9. 083 |
| National Aeronautics and Space Administration | 76 | 19 | 95 |
| National Science Foundation | 1 | 50 | 51 |
| Railroad Retirement Board | 1 | . | 1 |
| Selective Service System | . | 8 | 8 |
| Veterans Administration | 10 | 1. 536 | 1. 546 |
| Total for departments and agencies | 3. 409 | 227. 750 | 231. 159 |
| Transportation audit | 16. 315 | . | 16. 315 |
| General claims work | 2. 627 | . | 2. 627 |
| Total | 22. 351 | 227. 750 | 250. 101 |

¹ Includes \$10,151, 000 resulting from revenues of Defense international activities.

Details of Other Measurable Savings

Details of other measurable financial savings including additional revenues attributable to the work of the General Accounting Office during the fiscal year 1970 totaling \$227,750,000 are listed below. Approximately \$35 million of the savings or additional revenues are recurring in nature and will continue in future years. The items listed consist largely of realized or potential savings in Government operations attributable to action taken or planned on findings developed in GAO's examination of agency and contractor operations. In most instances, the potential benefits are based on estimates and for some items the actual amounts to be realized are contingent upon future actions or events.

| <i>Action taken or planned</i> | <i>Estimated savings</i> | <i>Action taken or planned</i> | <i>Estimated savings</i> |
|--|--------------------------|--|--------------------------|
| Supply Management: | | Savings resulting from reduction in quantity of spare parts for tanks shipped to Iran—Defense (nonrecurring) | \$1,200,000 |
| Reduced prices resulting from award of 3-year rather than 1-year contracts for certain operation and maintenance services—Air Force (nonrecurring) | \$32,000,000 | Elimination of excessive charges for petroleum products furnished by a nonappropriated activity of the U.S. Civil Administration of the Ryukyu Islands—Army and other Federal agencies (nonrecurring) | 655,000 |
| Savings resulting from reduction of stock levels in Vietnam by taking into account the actual time experienced in obtaining replenishment stock from U.S. supply sources—Army (nonrecurring) | 25,000,000 | Practice of purchasing currency and bond paper for the Bureau of Engraving and Printing changed from a short term to a long term basis—Treasury (nonrecurring) . | 577,000 |
| Savings resulting from reclamation of parts from excess aircraft—Army and Air Force (nonrecurring) | 19,625,000 | Use of long-supply and excess stocks as Government-furnished material in production of new aircraft and major aircraft components—Navy (nonrecurring and indeterminable future savings) | 561,000 |
| Savings resulting from elimination of overstated requirements for tanks and other vehicles at the Army Ordnance Center and School—Army (nonrecurring) | 13,600,000 | Savings resulting from cancellation of unnecessary procurement of telephone sets—Army (nonrecurring) | 440,000 |
| Savings resulting from strengthened procedures of prime contractors in negotiating prices of subcontracts for certain components—Defense (nonrecurring and indeterminable future savings) | 9,800,000 | Savings resulting from cancellation of action to dispose of teletypewriters which could be modified to meet alternative requirements—Navy (nonrecurring) | 303,000 |
| Reduction in appropriation request for procurement of spare aircraft engines by elimination from stated requirements of duplicated factors for contingencies—Navy (nonrecurring) | 5,000,000 | Savings resulting from improved surveillance in Vietnam over open requisitions for stock and cancellation of requisitions for stock no longer needed—Army (nonrecurring and indeterminable future savings) | 263,000 |
| Price reductions under existing contracts or proposed amendments resulting from reviews of prices negotiated—Army, Navy, and Air Force (nonrecurring) | 4,541,000 | Savings realized through the elimination of a nonessential item from the General Services Administration's stores stock system (estimated annual savings) | 250,000 |
| Material discovered in warehouses that was not on inventory records and is expected to be used as substitutes for purchases that would otherwise have been made—General Services Administration (nonrecurring) . . | 3,150,000 | Savings resulting from volume procurements of equipment by Atomic Energy Commission contractors (nonrecurring) | 188,000 |
| Cancellation of overhaul contractors' requisitions for Government-furnished materials resulting from strengthened controls over such materials—Army and Air Force (nonrecurring) | 1,400,000 | Savings resulting from identification of unrecorded gas engine generators—Army (nonrecurring) | 184,000 |

| <i>Action taken or planned</i> | <i>Estimated savings</i> |
|--|--------------------------|
| Supply Management—Continued | |
| During the closure of Wheelus Air Force Base, Libya, certain common use items were reclaimed from disposal and placed into the supply system or transferred to other bases (nonrecurring) | \$176,000 |
| Savings resulting from redistribution of excess household furnishings for family housing at military installations—Army (nonrecurring and indeterminable future savings) | 153,000 |
| Savings resulting from cancellation of planned procurement of parachute release units because adequate but unrecorded quantities were already on hand—Army (nonrecurring) | 116,000 |
| Savings resulting from improved procedures for computing requirements for aeronautical supplies and cancellation of procurement found to be unnecessary—Air Force (nonrecurring and indeterminable future savings). | 43,000 |
| Savings resulting from improved procedures for maintaining stock records and cancellation of procurement found to be unnecessary—Navy (nonrecurring and indeterminable future savings) | 40,000 |
| Savings resulting from identification and return to the Government of material excess to the contractor's needs under completed contracts—Army (nonrecurring). | 34,000 |
| Savings resulting from recovery of recappable tires from Air Force disposal yards and transfer for the use of the Army (nonrecurring) | 28,000 |
| Changes made by two hospitals to comply with the Social Security Administration's prescribed method for computing the share of drug and medical supply costs to be allocated to the Medicare program resulted in reduced amounts paid by the Medicare program to the hospitals—Health, Education, and Welfare (nonrecurring) | 26,000 |
| Savings resulting from procurement of an aeronautical item from the manufacturer at lower prices rather than through a prime contractor—Air Force (estimated annual savings) | 12,000 |
| Savings resulting from cancellation of procurement of aircraft brake assemblies and repairing unserviceable assemblies on hand—Air Force (nonrecurring) | 10,000 |
| Construction, Repair, and Improvement Costs: | |
| Future ship construction curtailed through increased utilization of oceanographic research and survey ships, based on rescheduling ship operations and by implementation of a manpower reserve—Commerce (nonrecurring) | 50,300,000 |

| <i>Action taken or planned</i> | <i>Estimated savings</i> |
|---|--------------------------|
| Savings resulting from revision of criteria for planning construction of mess halls and reconsideration of construction projects previously approved—Army, Navy, and Air Force (nonrecurring and indeterminable future savings) | \$3, 160,000 |
| Savings resulting from consolidation of design and construction functions of the Navy in Europe by disestablishing its London office and transferring functions to a similar office in Madrid—Navy (estimated annual savings) | 560,000 |
| Reappraisal of construction contract resulted in a credit change order because of decision that insulation for cold water pipes was not needed—Veterans Administration (nonrecurring) | 36,000 |
| Change in Federal participation for resurfacing of an Interstate highway from 90 percent to 50 percent Federal financing—Transportation (nonrecurring) | 16,000 |
| Payments to Government Employees and Other Individuals: | |
| Savings resulting from establishment of a centralized program for verifying that advance payments to military personnel are collected by offsets against pay in subsequent payroll periods—Army (estimated annual savings) | 10,000,000 |
| Savings resulting from revision of Joint Travel Regulations to preclude payment to members of the military uniformed services of the maximum per diem allowance for travel when commercial lodging is not required—Defense (estimated annual savings) | 8, 100,000 |
| Reduced costs from discontinuance of the ABCD program which required same day delivery of local first-class mail deposited by 11 a.m.—Post Office Department (estimated annual savings) | 1, 000, 000 |
| Termination of a special cost-of-living allowance to certain employees in Vietnam—State (estimated annual savings) | 320,000 |
| Savings resulting from reductions of rental and other separate allowances paid to Peace Corps volunteers in Liberia—Peace Corps (estimated annual savings) | 161,000 |
| Downward adjustments made in payments of separate maintenance allowance to civilian employees—Defense (nonrecurring) | 51,000 |
| Reduction of a Selective Service System State Director's time and salary while he was also employed by the State—(estimated annual savings) | a, 000 |

SECTION II

| <i>Action taken or planned</i> | <i>Estimated savings</i> | <i>Action taken or planned</i> | <i>Estimated savings</i> |
|--|--------------------------|--|--------------------------|
| Contracting Policies and Practices: | | | |
| Savings realized through the Government's exercise of an extended term rental option offered by a corporation for selected ADP equipment—General Services Administration (nonrecurring) | \$2,260,000 | owned aircraft and (2) elimination of lateral movement of aliens between El Centro, Calif., and El Paso, Tex.—Justice (estimated annual savings) | \$188,000 |
| Savings through the use of formal advertising procedures in establishing Federal Supply Schedule contracts for light bulbs—General Services Administration (estimated annual savings) | 2,000,000 | Savings through elimination of excessive protection for shipments of perishable commodities—Commodity Credit Corporation (estimated annual savings) | 137,000 |
| Savings through the use of formal advertising procedures in contracting for the bulk of the Government's automotive tire and tube requirements—General Services Administration (estimated annual savings). | 1,400,000 | Savings resulting from use of surface transportation rather than air parcel post for shipment of supply parcels to nearby destinations—Army (estimated annual savings) | 67,000 |
| Contract with redeveloper amended to provide for recovery of unallowable profit realized on a transfer of interest in land in an urban renewal project—Housing and Urban Development (nonrecurring). | 123,000 | Savings in port demurrage costs through improved procedures for documenting bills of lading for export shipments of ammunition—Navy (estimated annual savings, \$30,000; nonrecurring, \$7,000) | 37,000 |
| Transportation: | | Savings resulting from use of rail carriers in lieu of motor carriers for shipment of ammunition—Army (estimated annual savings) | 31,000 |
| Reduction in cost of commercial air shipments through improved selection of air carriers—Defense (estimated annual savings) | 973,000 | Savings resulting from use of actual in lieu of standard weights of pallets in shipments of less than standard quantities of ammunition—Army (estimated annual savings) | 29,000 |
| Savings in the cost of transporting military cargo by greater utilization of the unused capability of a Government-owned vessel between New Orleans, La., and the Panama Canal Zone—Defense (estimated annual savings) | 700,000 | Utilization by other Government agencies of unused passenger seats on aircraft chartered by an Atomic Energy Commission contractor (nonrecurring) | 26,000 |
| Savings resulting from use of flights of the Military Airlift Command and commercial carriers in the Pacific area in lieu of chartered flights—Army (estimated annual savings) | 621,000 | Disposal of seven motor vehicles without replacement and relocating 11 others to areas of greater need thus avoiding the purchase of new vehicles at these areas—Army Corps of Engineers (nonrecurring) | 23,000 |
| Savings in the cost of shipping military mail from Okinawa to Southeast Asia through use of unused space on direct military flights—Defense (nonrecurring). | 606,000 | Reduction in cost of delivering refrigerated containers in Hawaii through use of Army capability in lieu of contractor delivery—Army (estimated annual savings) | 21,000 |
| Savings resulting from use of Military Official Mail Service rather than air parcel post for shipment of certain supply parcels overseas—Defense (estimated annual savings) | 232,000 | Savings resulting from the recovery of funds (recorded in the Agency for International Development's accounts receivable) for excess transportation costs in the shipment of material to Vietnam under the commercial import program—Agency for International Development (nonrecurring) | 17,000 |
| Savings resulting from better utilization of Government-owned refrigerated vessels for transporting retrograde cargo from Germany to the United States—Defense (nonrecurring). | 226,000 | Savings realized through use of more accurate shipping weights for multifuel engines shipped from Red River Army Depot, Tex., to Mobile, Ala.—Army (estimated annual savings) | 16,000 |
| Savings resulting from reduced minimum weight on exclusive use shipments via motor carriers—Defense (estimated annual savings) | 200,000 | Interest Costs: | |
| Savings in cost to the Immigration and Naturalization Service of returning aliens to Mexico by (1) extensive use of Government-owned buses in lieu of Government- | | Changes in the Internal Revenue Code requiring employers to pay Federal unemployment insurance taxes on a quarterly rather than on an annual basis thereby making funds available to the Government at an earlier date —Labor (estimated annual savings) | 2,500,000 |

SECTION II

| <i>Action taken or planned</i> | <i>Estimated savings</i> |
|--|--------------------------|
| Interest Costs—Continued | |
| Savings in interest cost through implementation of the letter-of-credit procedures to provide funds to local public agencies only as needed to cover the costs of approved code enforcement activities—Housing and Urban Development (estimated annual savings) | \$153,000 |
| Savings in interest costs resulting from elimination of contingency funds advanced to Maritime Administration general agents—Commerce (nonrecurring) | 26,000 |
| Automatic Data Processing Systems: | |
| Procurement of peripheral components directly from independent manufacturers instead of from the system suppliers—Veterans Administration (nonrecurring) | 1, 500,000 |
| Adoption of payroll system of another agency in lieu of developing a new payroll system—Civil Aeronautics Board and National Science Foundation (nonrecurring) | 66,000 |
| Loans, Contributions, and Grants: | |
| Increased credits received in the distribution of proceeds from liquidation of international logistics programs (nonrecurring) | 640,000 |
| Agreement by grantee to repay Federal grant funds used for unauthorized purposes—Health, Education, and Welfare (nonrecurring) | 220,000 |
| Disallowances in the amount of Federal financial participation under the Federal program of aid to educationally deprived children because of (1) purchase of unneeded or unapproved equipment and (2) erroneous charges for miscellaneous items—Health, Education, and Welfare (nonrecurring) | 176,000 |
| Reduction in Federal grant for construction of municipal waste treatment facility in excess of authorized dollar limitation—Interior (nonrecurring) | 119,000 |
| Reduction in monthly rent supplement payments to project owners resulting from computation of supplements on the basis of tenants' current rates of earnings—Housing and Urban Development (nonrecurring) . . | 28,000 |
| Utilization of U.S.-Owned Foreign Currencies: | |
| Savings resulting from the utilization of U.S.-owned excess Tunisian dinars to finance the People to People Health Foundation, Inc.—Agency for International Development (nonrecurring) | 450,000 |
| Savings resulting from the restoration of Indian rupees erroneously charged to the tourist conversion account and made available for purchase for dollars from the accommodation exchange by transient U.S. civilian and military personnel and their dependents—State (estimated annual savings) . . | 448,000 |

| <i>Action taken or planned</i> | <i>Estimated savings</i> |
|--|--------------------------|
| Savings resulting from the utilization of U.S.-owned foreign currencies in lieu of dollars to pay for return transportation of Peace Corps volunteers from two excess currency countries—Peace Corps (estimated annual savings). | \$152,000 |
| Savings resulting from substituting the procurement of motor vehicles in India with excess rupees instead of procurement in the United States with dollars—Agency for International Development (nonrecurring). . | 46,000 |
| Rental Income: | |
| Increased rental for contractor's use of Government-owned machinery—Navy (estimated annual savings). | 200,000 |
| Other Items: | |
| Additional credits received for prefinanced costs incurred by the U.S. for facilities of an international organization (nonrecurring) . | 8, 200,000 |
| Repayment to Treasury from Bonneville Power Administration power revenues for space provided to the Administration by the General Services Administration and for the costs of the General Accounting Office's annual audits of the financial statements of the Federal Columbia River Power System—Interior (estimated annual savings, \$79,000; nonrecurring, \$2,902,000) | 2, 981,000 |
| Discontinuance of purchase of title insurance on sales of acquired home properties—Housing and Urban Development (estimated annual savings). | 1, 700,000 |
| Price reduction resulting from waivers of requirement for performance and payment bonds in Coast Guard vessel construction program—Transportation (nonrecurring) . | 900,000 |
| Savings in costs of providing scientific and technical reports through increased use of a microfilm technique rather than hard copy reports, and the establishment of a user charge for those requiring hard copies—Defense (estimated annual savings) | 650,000 |
| Discontinuance of property surveys in connection with sales of acquired home properties—Housing and Urban Development (estimated annual savings). | 585,000 |
| Savings through discontinuing questionable accounting practice of the Federal Water Quality Administration and returning unobligated funds to the Treasury—Interior (nonrecurring) | 542,000 |
| Reductions in physicians' charges in certain States for services provided under the Medicare program because of application of the physicians' customary charges in making reasonable charge determinations—Health, Education, and Welfare (nonrecurring) . . | 512,000 |

SECTION II

| <i>Action taken or planned</i> | <i>Estimated savings</i> | <i>Action taken or planned</i> | <i>Estimated savings</i> |
|---|--------------------------|--|--------------------------|
| Other Items—Continued | | | |
| Method of selling silver to small business concerns changed from a noncompetitive to a competitive bid basis—Treasury (nonrecurring). | \$445,000 | activity for which it was no longer responsible—District of Columbia Government (estimated annual savings). | \$80,000 |
| Discontinuance of purchase of public liability insurance for properties acquired through foreclosure—Housing and Urban Development (estimated annual savings) | 393,000 | Savings resulting from discontinuance of marine protection and indemnity insurance on the nuclear ship Savannah—Commerce (estimated annual savings). | 74,000 |
| Reduction in cost of providing medical and insurance services to Foreign Service employees overseas—State (estimated annual savings). | 336,000 | Interest income to be earned by the Federal Employees' Health Benefits Program by reducing program funds advanced to local Blue Cross-Blue Shield plans and investing such available funds—Civil Service Commission (estimated annual savings) | 28,000 |
| Savings from cancellation of procurement of industrial plant equipment by the transfer from one location to another, and by strengthening criteria for replacement and modernization—Army and Air Force (nonrecurring) | 194,000 | Savings in storage space, records maintenance, and certain other costs resulting from destruction of exposed X-ray films no longer needed—General Services Administration (estimated annual savings). | 22,000 |
| Change in a carrier's method of allocating administrative expenses for (1) data processing, (2) executive compensation and related costs, and (3) certain other indirect costs to the Medicare program—Health, Education, and Welfare (estimated annual savings, \$132,000; nonrecurring, \$3,000). | 135,000 | Avoidance of payment of incentive fees because of disallowance of overstated contract target costs—National Aeronautics and Space Administration (nonrecurring) | 19,000 |
| Savings resulting from a more equitable allocation of contractor's indirect costs to Government research contracts—Defense (estimated annual savings). | 100,000 | Savings resulting from procedures developed and implemented by the Bureau of Customs to sell rather than destroy liquor unclaimed or abandoned by tourists or importers—Treasury (estimated annual savings). | 13,000 |
| Avoidance of loss of lease revenues—Atomic Energy Commission (nonrecurring). | 90,000 | Savings resulting from use of more economical duplicating paper in copiers—Housing and Urban Development (estimated annual savings). | 5,000 |
| Elimination from the Department of Public Welfare budget of an amount covering an | | Miscellaneous (estimated annual savings) | 2,000 |
| | | <hr/> | |
| | | Total other measurable savings. | \$227, 750,000 |

Additional Financial Savings Not Fully Or Readily Measurable

Many significant financial benefits to the Government, either one-time savings or recurring savings, that are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms. These benefits result from actions that are taken or that are to be taken by the Congress, the departments, and the agencies to eliminate unnecessary expenditures or to otherwise correct deficiencies brought to light in GAO's audit reports. Some examples of these actions identified during the fiscal year 1970 are described below.

CONGRESSIONAL ACTIONS AND CHANGES IN AGENCY POLICIES, PROCEDURES, AND PRACTICES

Congressional Reductions in Department of Defense Budget Requests for Certain Programs

The Congress, in enacting the Department of Defense Appropriation Act, 1970, made substantial reductions in the amounts of funds requested by the Department of Defense for certain of its programs. GAO's reports to the Congress on reviews of some of these programs were considered by appropriate congressional committees in their deliberations and, GAO believes, were an important contributing factor in the reductions. Among such reductions were (1) denial of funds for procurement of additional quantities of the Sheridan weapon system vehicle (\$57.6 million), (2) reduction of funds for expansion of existing automatic data processing systems and installation of new equipment (\$32.3 million), (3) reduction of funds for three projects involving training of enlisted personnel and assistance to retired military personnel seeking civilian careers (\$6.7 million), and (4) reduction of funds for Project AGILE (a project of the Overseas Defense Research Program) (\$5 million).

Sheridan Weapon System (\$57.6 Million)

In a draft of a report to the Congress in February 1969, GAO reported that appreciable quantities of the Sheridan weapon system (a tank-like, armored, reconnaissance/airborne assault vehicle) had been authorized for production despite known deficiencies, and that many of the vehicles produced had been put into storage and would require substantial modification to the vehicles and the ammunition before they would be suitable for combat use. A subcommittee of the Committee on Armed Services, House of Representatives,

indicated an interest in this matter and, as a result of GAO's review, held hearings in March and April 1969. GAO issued a final report to the Congress in November 1969. The Congress provided funds for completion of an existing production contract but denied the request for \$57.6 million, to procure additional quantities, and suggested that the Army correct the present defects and deficiencies in the existing vehicles and the ammunition before contracting for additional vehicles.

Automatic Data Processing Systems and Equipment (\$32.3 Million)

GAO reported to the chairman of the House Committee on Appropriations in March 1968 that the military departments and defense agencies were modernizing and expanding existing automatic data processing systems and installing new systems without central direction or an overall plan. The committee's report suggested that the Department of Defense review the existing and planned systems and that further expansion of the systems be deferred during the review, and recommended consideration of budget reductions. The committee noted that the review process of such systems within the Office of the Secretary of Defense was divided among various offices and expressed its belief that the review and approval process should be a centralized responsibility of one group, whomever the Secretary so directs. Subsequently, the Department of Defense made reductions in its fiscal year 1970 budget requests totaling \$32.3 million and noted that these reductions were consistent with GAO's report.

Three Projects Involving Training of Enlisted Personnel and Assistance to Retired Military Personnel (\$6.7 Million)

The Congress made reductions in the funds for Project TRANSITION (training to prepare enlisted

SECTION II

personnel for civilian life after military service) (\$4,015,000); Project One Hundred Thousand (training to qualify enlisted personnel for military service) (\$1,745,000); and Project REFERRAL (assistance to retired military personnel seeking civilian careers) (\$975,000). In reports to the Congress on these projects in September and December 1969 GAO pointed out that certain improvements were needed to insure achievement of the stated objectives of Project TRANSITION and Project One Hundred Thousand and that Project REFERRAL duplicated some of the services offered by the U.S. Employment Service of the Department of Labor and by the Veterans Administration.

Project AGILE (\$5 Million)

It was reported to the Secretary of Defense in May 1969 that certain of the projects included in the Overseas Defense Research Program, conducted by the Advanced Research Projects Agency of the Department of Defense, were either not defense-related or of doubtful value. GAO furnished copies of its report to the Senate Foreign Relations and House Appropriations Committees. The Congress reduced by \$5 million the funds previously made available in the fiscal year 1970 Defense Authorization Bill for Project AGILE, one of the projects in the Overseas Defense Research Program.

Redistribution of Excess Mobilization Industrial Plant Equipment To Meet Other Requirements

The Army was retaining a mobilization package of 1,300 items of industrial plant equipment, with an estimated replacement value of about \$28 million, for production of the 40mm. gun M2A1. GAO found that the production capacity of the retained equipment was about 10 times the mobilization requirement as determined by the Army. In response to this finding reported to the Congress in April 1970, the Army reduced to 160 the number of items of equipment assigned to the package and redistributed 1,140 of them. The redistribution was effected by reassignments to other mobilization packages, by transfers for use on Army supply contracts, and by making the remainder available for further redistribution by the Defense Industrial Plant Equipment Center.

Avoidance of Costs of Unnecessary Relocations of Families of Navy Military Personnel

In a letter to the Secretary of the Navy in November 1969, GAO reported that the Navy was authorizing

payments for relocation of families and household goods of military personnel who were scheduled for separation from the service, retirements, or reassignment to other locations within a short time after the relocation. Limited tests involving 35 ships and mobile units identified payments of about \$23,000 for such purposes. GAO also discussed this matter with officials of the Bureau of Naval Personnel and on April 17, 1970, the Secretary of the Navy instructed commanders of all ships and mobile units to stop authorizing relocation payments in those instances where military personnel have less than 90 days remaining in service or are scheduled for reassignment.

Deobligation of Funds for a Development Loan Project in Nigeria

GAO's review disclosed that a \$1.6 million Agency for International Development (AID) loan project in Nigeria, to finance the procurement of 85,000 telephone instruments and related equipment in a telecommunications expansion program, was not being implemented as planned and was not being effectively monitored by the Mission.

At the time of its review, GAO found that (1) only 3,100 of the 33,000 telephones which had been delivered to the telephone company had been installed, (2) one phase of the expansion program involving the installation of 10,000 telephones had been indefinitely postponed, (3) about 60 percent of the telephones currently on order had not yet been delivered, and (4) the Mission had not been monitoring this procurement and had not received required reports on the project's status.

GAO concluded that better monitoring of this loan was essential to assure that the equipment procured would be effectively utilized, and that the revenues anticipated from placing the telephones in service would accrue. GAO discussed the matter with the Mission, and was subsequently informed by AID that since efforts to speed up telephone installations had proven only partially successful, agreement had been reached with the Nigerian Government to reduce the loan coverage from 85,000 instruments to 59,000 and that negotiations were underway to amend the contract with the supplier.

On June 25, 1969, AID deobligated \$300,000 from the loan which was reported in the annual report for 1969. An additional \$100,000 was subsequently deobligated upon final settlement of the contract. It has

also advised GAO that it is issuing instructions to assure that reports required under AID loan agreements are obtained.

Utilization of U.S.-Owned Foreign Currencies

GAO estimates that \$152,000 of measurable savings will result from the utilization of U.S.-owned foreign currencies in lieu of dollars to pay for return transportation of Peace Corps volunteers from two excess currency countries. (See page 129.) The overall savings in other excess or near excess foreign currency countries could amount to additional thousands of dollars annually.

It is also estimated that \$448,000 of measurable savings will be achieved from the utilization of U.S.-owned Indian rupees that were erroneously charged to the tourist conversion account and made available for purchase for dollars from the accommodation exchange account by transient U.S. Government personnel and their dependents. (See page 129.) This action could result in a potential savings of hundreds of thousands of dollars annually.

Savings by Cancellation of Retrograde Movement of Items Overstocked in Hawaii

A significant percentage of the General Services Administration's (GSA) outgoing shipments from Hawaii were overstocked items being repositioned at mainland warehouses. GAO noted that for a recent 6-month period GSA had incurred shipping charges of about \$36,300 for retrograde shipments. This seemed disproportionate to the cost of the items and GSA was asked whether this practice was economical in view of the transportation costs involved.

GSA acknowledged that the cost of transportation had not been considered in planning the relocation of this material. After reviewing the relative costs, GSA canceled all pending return shipments from Hawaii as being uneconomical. However, the amount of savings could not be determined from the available data.

Reduction in the Cost of Stores, Supplies, and Equipment Purchased for Government-Owned Vessels

In a report to the Congress in November 1968, GAO pointed out that the Maritime Administration had not established adequate procedures to guide its three coast district offices in purchasing equipment and supply items for vessels activated for operation in support of military activities in Southeast Asia. Each district office had developed its own procurement methods and pro-

cedures and, as a result, Maritime did not, in GAO's opinion, take advantage of opportunities for realizing significant economies in the procurement of items for these vessels.

In commenting on a draft of this report, the Acting Maritime Administrator advised GAO that a group had been appointed to study the complete logistic support system for the reserve fleet vessels. As a result of the recommendations of the study group, Maritime has implemented many revised procurement procedures including increased central procurement, more extensive use of Government supply sources, and improved material controls.

Potential Economies in Use of Disposable Glassware

GAO's survey at one of the constituent institutes of the National Institutes of Health (NIH) showed that this institute had found it economical to use certain types of disposable glassware rather than the comparable types of reusable glassware because such use eliminated the need for more costly washing services required for reusable laboratory items. Information obtained indicated that at least three other NIH institutes had not taken advantage of the economies which could result from the use of disposable glassware.

On the basis of GAO's letter to the Director, NIH, and cognizant Department of Health, Education, and Welfare officials in March 1970, a Department-wide circular was issued recommending that all laboratory activities make cost comparisons and feasibility studies regarding the use of disposable glassware where such items were not in use.

More Frequent Disbursements of Student Loans Would Reduce Risk and Interest Costs

Under the guaranteed student loan program, the Government may insure loans to students from banks or other lenders, and usually pays the interest on these loans while the borrowers are in school and during a grace period afterwards. GAO estimated that the Government's interest costs would have been about \$8.9 million less, from November 1965 to December 1968, if the lenders had been required to disburse students' loans at the beginning of each period of the school year for which the funds were required, rather than annually. Several cases were also noted where students received loans in lump-sum payments during the first academic period covered by the loans, but did not remain eligible for the portions of the loans intended for use in later periods.

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The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, informed GAO in February 1970 that Federal regulations would be amended to provide that lenders **may** disburse student loans in such installments as are deemed appropriate by the lenders, with the exception that the funds disbursed during a given semester, quarter, or term are not to be greater than the amounts required by the students for that academic period.

Controls Instituted Requiring Documentation of Consultants' Work

GAO's review of grants awarded to selected local educational agencies (LEAs) in Massachusetts by the Department of Health, Education, and Welfare under Title III of the Elementary and Secondary Education Act of 1965, showed that, when the LEAs hired consultants, they generally did not receive written reports and were not otherwise required to document the results of consultations furnished. One of the major purposes of Title III is to stimulate and assist in the development and establishment of exemplary elementary and secondary school educational programs to serve as models for regular school programs. Therefore, the results of consultations should be documented so that other LEAs could obtain the benefits of the consultants' work.

GAO recommended that LEAs should generally be required to obtain reports from consultants on the results of their work. GAO was informed that in January 1970 an administrative bulletin was issued requiring reports from consultants, and requiring that results of consultations be documented in the LEA records.

Reduction in Medicare Payments for Physicians' Services

Under the Medicare program administered by the Social Security Administration, Department of Health, Education, and Welfare, supplemental medical insurance benefit payments may not exceed either the physicians' customary charge for similar services or the prevailing charge in the locality.

GAO's review of supplemental medical insurance benefit payments in certain States showed that, although customary charge profiles had been established by the insurance company on whom the claims were made, payments were not being reduced accordingly.

Following GAO's review, corrective action was taken to assure that claims were properly screened with the result that payments to physicians were reduced by

about \$512,000 during calendar year 1969. This amount is being reported as a measurable savings attributable to this finding of the General Accounting Office (see page 129).

GAO believes that more effective use by the insurance company of the customary charge profiles will produce further reductions of payments in subsequent years but the amount of such savings is indeterminable at this time.

Instructions Issued To Strengthen Inspections of Low Rent Public Housing Construction

Department of Housing and Urban Development (HUD) construction representatives and local housing authority (LHA) inspectors are responsible for ascertaining whether all required tests have been made to insure that construction materials comply with contract specifications. GAO's examination at various low rent public housing projects showed that the representatives and inspectors had not enforced requirements for testing to determine whether the concrete used complied with contract specifications. An average of only 33 percent of the required compressive-strength tests had been made and GAO believed that such limited compliance with testing requirements did not provide adequate assurance that the concrete used in the projects met the applicable strength requirements for its designed use.

In its report to the Congress in March 1970, GAO pointed out that the significance of concrete from a cost and structural standpoint and the unique problems involved in quality control made it important that close surveillance be maintained over concreting operations. Weaknesses in construction inspections and deviations from contract specifications could result in adverse effects which may not appear for some years after the construction of a project has been completed.

Results of this review had been discussed with HUD regional construction officials, and in a draft of the report submitted to the Department for comment in October 1969 GAO recommended that more effective use be made of HUD regional construction representatives during periodic visits to housing construction projects. During these visits greater emphasis could be placed on determining whether on-site inspections by LHAs were adequate to insure compliance with contract specifications for construction of the projects.

As a result of GAO's discussions with the regional officials, a circular was issued instructing HUD con-

struction representatives to examine more closely into concrete inspection matters. In January 1970, HUD issued revised instructions emphasizing the importance of HUD construction representatives' and LHA inspectors' carrying out all their responsibilities and fully enforcing all contract requirements. These revised instructions, if properly implemented, should provide greater assurance that contractors are providing materials and workmanship of the quality specified and paid for, and should help insure the durability and the economy of maintenance of the project buildings.

Local Housing Authorities Required To Negotiate More Favorable Lease Rates for Units Under the Federal Leased Housing Program

The Federal leased housing program was established to assist low income persons obtain decent, safe, and sanitary housing. The Department of Housing and Urban Development (HUD) furnishes financial aid to local housing authorities (LHAs) who lease existing privately owned dwelling units for the program's participants. The lease rates negotiated with the owners of the dwelling units have a direct bearing on the amount of Federal assistance.

In many instances, low income occupants of standard housing were brought under the leasing program and continued to live in the same dwelling units they occupied prior to participating in the program. In GAO's report to the Congress in February 1970 it stated that LHAs often negotiated higher lease rates with the owners of these units than had been charged the occupants (residual tenants) prior to their being brought under the program. While increases in lease rates for units occupied by residual tenants may have been warranted in some instances, a number of cases were identified where increases did not appear justified.

LHAs records relating to the approximately 460 dwelling units occupied by residual tenants under the leasing program operated by eight LHAs showed that in 178 cases (39 percent), LHAs had negotiated lease rates which were higher than had been charged the residual tenants before their participation in the leasing program. GAO examined 101 of the 178 cases and found that the increases ranged from \$2 to \$30 a month and would total about \$15,000 annually for the cases examined. Percentagewise, the increases ranged from 2 to 63 percent.

In submitting a draft report to HUD for comment

in December 1968, GAO proposed that LHAs be required to negotiate lease rates no higher than those previously charged for the units, unless higher rates were clearly justified, and that they be required to fully document the reasons for any higher rates negotiated so that the reasonableness of such rates could be evaluated by HUD during its periodic reviews of LHA operations.

HUD advised GAO in March 1969, that it concurred and would issue appropriate instructions. New instructions along the lines of GAO's proposal were issued in November 1969. Compliance with the new instructions should result in substantial savings through reductions in lease rates.

Instructions Issued To Strengthen Procedures for Obtaining Required Cost Certifications Related to Mortgage Insurance for Multifamily Housing Projects

The National Housing Act, as amended, requires that the amount of any mortgage loan insured by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), on a multifamily housing project be limited to a specified percentage of the cost of the project to the mortgagor, and that the mortgagor certify to such cost.

In a survey of the administration of cost certification procedures relating to mortgage loans for selected multifamily housing projects insured by HUD's San Francisco insuring office (SFIO), GAO noted that followup action was not being taken to obtain supplemental cost certifications where construction costs certified by mortgagors and builders included unpaid items. FHA procedures required that unpaid items of costs be paid in cash within 45 days after final endorsement of the mortgage loan for insurance and that insuring offices obtain a supplemental certification that the cash payments were made.

Action by HUD to obtain certifications related to unpaid items of cost is necessary to assure that the insured mortgage proceeds for a project do not exceed the applicable legislative limitation and are used only to liquidate the costs incurred to build the project. If mortgagor proceeds are not used to liquidate costs incurred to build a project, claims could threaten the successful operation of the project and increase the risk of FHA's incurring an insurance loss on the mortgage loan.

These matters were called to the attention of SFIO officials in discussions with them and GAO's findings

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were included in a report to the Assistant Secretary-Commissioner, FHA, in December 1969. The report suggested that FHA circulate the results of GAO's examination to all insuring offices as a means of emphasizing the need for obtaining the required certifications.

SFIO officials informed GAO that a followup procedure for obtaining required certifications had been initiated and that the procedure would be fully implemented. The Assistant Commissioner for Multifamily Housing issued instructions to all HUD regional offices in February 1970 requesting that FHA insuring offices maintain appropriate followup action on unpaid items included in certified construction costs and that action be initiated for recovery of mortgage proceeds, where appropriate.

Management Improvement in Internal Audit Activities

Primary responsibility for conducting the various auditing activities of the Department of Housing and Urban Development (HUD) was assigned to (1) the Office of Audit, under the Assistant Secretary for Administration, which audited various activities for which the Assistant Secretary was responsible, and (2) the Audit Division, under the Assistant Commissioner for Administration, Federal Housing Administration (FHA), which devoted about 85 percent of its audit time to work specifically requested by FHA operating officials. Also, the Inspection Division, Office of the Secretary, had an Examination Branch which performed certain functions characteristic of auditing activities.

GAO concluded that a single audit organization placed at the highest practical organizational level would provide greater opportunity for more flexible use of staff resources and place the auditors in a better position to independently and objectively review and report on all of HUD's programs. Further, GAO believed that a single audit organization would facilitate a reduction in travel costs in performing audits. With separate audit groups, one group might send its personnel to distant locations to make audits which could be made by personnel of other groups assigned at or near such locations.

GAO recommended that the Secretary of HUD consolidate all audit activities into a single organization responsible to the highest practical organizational level.

As discussed in a report to the Secretary issued in October 1969, the Secretary, in response to GAO's recommendation, had previously transferred the audit responsibilities of FHA's Audit Division and the Inspection Division's Examination Branch to the Office of Audit effective May 25, 1969.

Procedures Strengthened To Avoid Loss of Cash Discounts on Purchases

In fiscal year 1969, the Bureau of Indian Affairs, Department of the Interior, lost an estimated \$163,000 in available discounts because of (1) delays beyond the discount period in paying vouchers and (2) failure to take the discounts offered on vouchers processed within the discount period. These conditions were the result of inadequate control, supervision, and review of the payment activity. In response to GAO's finding, included in a report to the Commissioner, Bureau of Indian Affairs, in April 1970, the Bureau issued instructions which provided for clear identification of discount vouchers, monthly reporting of lost discounts to Bureau headquarters, and assignment of a Bureau official to overview the analysis of the lost discounts report. The strengthened procedures should result in future savings to the Government although the amount is indeterminable at this time.

Savings by Reducing Per Diem Rates Where Meals and/or Lodgings Were Furnished

GAO's report to the Attorney General, Department of Justice, in June 1970, commented on per diem overpayments totaling about \$32,000 made to certain deputy U.S. marshals on a temporary assignment from September 1967 through August 1968 because the rate paid was not reduced as administratively required where lodging was furnished by the Government.

Department officials agreed that the per diem rate paid was excessive and stated that action had been taken to reduce the per diem rate paid to deputy marshals on temporary duty assignments when meals and/or lodgings are furnished by the Government.

GAO recommended that, in addition to making recovery of the identified per diem overpayments, the Department should review temporary duty assignments of other deputy marshals to ascertain whether overpayments of per diem had been made where meals and/or lodgings were furnished by the Government and recover overpayments.

Reduction of Interest Charges on State's Claims for Federal Participation in Condemnation Settlements

GAO's report to the Federal Highway Administration (FHWA) in March 1968 recommended that FHWA advise the State of Rhode Island that it should exercise its authority to minimize interest cost resulting from weaknesses in highway right-of-way condemnation policies, procedures, and practices. Subsequent to GAO's report, FHWA and the State initiated corrective action along the lines suggested. In addition, FHWA examined property settlements made by the State from April 1964 through December 1968. Based on this review FHWA reduced the State's fiscal 1967-1969 claims for Federal participation by the amount of \$131,000. GAO believes that significant savings will accrue in the future from the actions taken; however, since claims for Federal participation in cost of settlements are not reasonably predictable GAO is not estimating the amount of possible future savings.

Volume Procurements of Equipment

At the request of the Joint Committee on Atomic Energy, GAO reviewed the management of equipment by the Atomic Energy Commission (AEC) at seven operations offices and selected contractor-operated facilities under the jurisdiction of those offices.

AEC's operating contractors purchased large quantities of similar items of equipment. GAO found, however, that in some instances contractors were consolidating requirements and receiving volume discounts while in other instances certain items of equipment had been purchased individually or in small quantities. AEC agreed that, through more exchange of procurement information and earlier forecasting of requirements, procurement of like items in large quantities would be possible and more favorable prices could be obtained.

AEC subsequently reported eight instances where savings amounting to about \$188,000 had been obtained through December 31, 1969. This amount is being reported as measurable savings attributable to this finding of the General Accounting Office (see page 126).

GAO believes that further use of this technique will result in additional savings by AEC contractors but the amount is indeterminable at this time.

Utilization of Unused Passenger Seats on a Chartered Aircraft

GAO's review of Atomic Energy Commission (AEC) activities showed that a support contractor chartered a jet aircraft to transport personnel and cargo between Seattle, Wash., and a test site on Amchitka Island, Alaska, with an intermediate stop in Anchorage, Alaska. The aircraft had a capacity of 69 passengers and cost about \$17,500 per round trip.

During a 5-month period there was an average of 44 unused seats per flight between Seattle and Anchorage. AEC agreed that full passenger utilization was not being achieved on the chartered aircraft because the flights were limited to AEC program personnel.

GAO suggested that the unused seats afforded AEC the opportunity to provide air travel for persons of other Government agencies traveling between Seattle and Anchorage on official business, without additional cost. After considering the legal aspects, AEC implemented GAO's suggestion. During the period September 1969 through April 1970, 262 personnel from other Government agencies used the air charter service, resulting in savings to the Government of about \$26,000 based on commercial jet air fares. This amount is being reported as measurable savings attributable to this finding of the General Accounting Office (see page 128).

GAO believes that continued use of this practice will produce further savings in subsequent periods but the amount of such savings is not readily determinable.

Avoidance of Loss of Lease Revenues

In a letter to the Joint Committee on Atomic Energy, the Atomic Energy Commission (AEC) proposed certain changes in its plutonium pricing policy and in arrangements for supplying plutonium to certain foreign entities. AEC had a surplus of fuel grade plutonium and proposed a reduction in price to \$30 per gram from the published prices which ranged from \$36.96 to \$45.12. The proposed reduced price was representative of costs of production funded by appropriations in fiscal year 1970.

GAO found that the potential for sales in the near future was limited and a reduction in the price of plutonium would result in a decrease in revenues of about \$90,000 in 1970 from plutonium on lease and subject to lease changes.

GAO suggested that, before it established a new base price, AEC should reexamine the likelihood of obtaining revenues from additional sales to determine

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whether the proposed price would be a sufficient inducement to potential foreign customers to buy significant quantities of the U.S. material to offset the reduction in revenues from lease charges.

The Joint Committee advised AEC that it had no objection to the reduction in the price of plutonium provided that AEC determines, prior to revising the price, that a reasonable probability existed that any resultant reduction in revenues from leased material would be at least offset by increased plutonium sales generated by the price reduction.

AEC determined that an order of at least 42 kilograms of plutonium would be needed to justify the price decrease.

AEC later advised GAO that there had been no orders and the potential for such an order was very remote because of the availability of plutonium from other sources at a lower price. Therefore, if the price had been reduced, lease charge revenues would have been reduced by about \$90,000 without offsetting revenues from sales. This amount is being reported as measurable savings attributable to this finding of the General Accounting Office (see page 130).

Because future savings resulting from the avoidance of loss of lease revenues is dependent upon the amount of future plutonium sales and leases, the amount of such savings is indeterminable at this time.

Establishment of a Program To Eliminate Inactive and Low Demand Items From Stores Stock System

GAO's review of efforts by the General Services Administration (GSA) to eliminate nonessential items from the stores stock system indicated that numerous inactive and low demand items were in the system and that GSA did not have an effective program for the identification and elimination of such items.

At GAO's request, GSA prepared a computer program to extract various demand data from its automatic data processing system. An analysis of this data showed that GSA's stores system contained about 15,000 inactive and low demand items with an onhand inventory of about \$15.5 million. GAO concluded that there were opportunities to realize significant savings by removing these items from GSA's stores system and that an effective program for identification and elimination was necessary in the maintenance of an efficient and economical supply system.

GAO recommended to the Administrator of General Services that a program to delete inactive and low demand items from the stores system be implemented.

In December 1969, GSA stated that a program had

been implemented in response to GAO's recommendation. A goal was established to reduce the stores system by 6,000 items before July 1, 1970, and by an additional 4,000 items before July 1, 1971. The savings—in inventory investment, storage costs, and inventory management expenses—resulting from GSA's planned actions are not readily measurable. Also, receipts from the sale of excess inventories are indeterminable at this time.

Utilization of Stocks Discovered in Warehouses

GAO's review of the transfer of management responsibility for items in 52 Federal supply classes from the Department of Defense (DOD) to the General Services Administration (GSA) disclosed significant quantities of stock on hand at DOD depots of the types transferred that had not been recorded on GSA records. Since GSA was unaware of the existence of this stock it could not be used to fill requisitions.

GAO informed GSA officials of the significant amount of unrecorded stock and suggested that physical inventories be taken and that GSA records be adjusted accordingly. It was also suggested that more effective controls be established over GSA stocks that are physically located in DOD depots.

Physical inventories at 18 depots disclosed unrecorded stock valued at about \$3.8 million. Because the physical inventories disclosed a high percentage of inaccurate stock balance records, GSA initiated a procedure whereby inventory counts were requested whenever the stock records reached a zero balance. As a result of this procedure, additional unrecorded stock valued at more than \$1.2 million was found.

GAO estimates that the found inventory recorded on the records and available to fill requisitions will enable GSA to cancel or avoid purchases of new stocks costing about \$2.5 million. This amount is being reported as part of a total of **\$3.15** million measurable savings attributable to this finding of the General Accounting Office (see page 126).

GAO believes that as the balance of the found inventory is available for requisition and the new procedures adopted by GSA continue to be used further savings will result. The amount of such savings, however, is indeterminable at this time.

Improved Guidance to Procurement Officials Concerning Competitive Negotiations

The statutes provide that, in all negotiated procurements in excess of \$2,500, written or oral discussions shall be conducted with all responsible offerors who

submit proposals within a competitive range, price and other factors considered.

GAO's review of procurement instructions issued by the National Aeronautics and Space Administration (NASA) to implement statutory requirements and GAO's examination of a number of negotiated procurements by the Manned Spacecraft Center indicated a need for clarification. Concerning what is to be included in the written or oral discussions and the basis for determining the competitive range, GAO found that varying interpretations had been applied by different source selection and contracting officers, which frequently resulted in the rejection of proposals that seemed to be competitive in price and other factors.

GAO discussed the results of this review with NASA officials and later issued a report on the matter to the NASA Administrator.

NASA procurement regulations were revised in accordance with these discussions and GAO believes that the improved procedures will result in savings to the Government through greater competition among offerors. The amount of such savings, however, is indeterminate at this time.

Improved Management Controls of Government-Owned Property Loaned to Non-Federal Institutions

GAO's review of equipment loaned by Veterans Administration (VA) field stations to non-Federal institutions disclosed that such loans were not being made in accordance with VA written policy or the Comptroller General's decision, 44 Comp. Gen. 825, dated June 24, 1965, regarding loans of personal property to non-Federal institutions. The decision provides (1) for the issuance of a revocable license to the borrower, (2) that this license may be terminated by the Government at any time, and (3) that the Government derive some benefit from the loan.

GAO noted that VA written policy provided for loans of equipment to be made only after approval by VA Central Office (VACO) but did not provide for the criteria set forth in the Comptroller General's decision.

These deficiencies were brought to the attention of VACO officials. On April 8, 1970, VA issued its revised policy concerning loans of personal property to non-Federal institutions. The new policy includes, among other things, provisions for (1) the inclusion of the criteria in 44 Comp. Gen. 825, (2) requests, made by the field stations to VACO for authority to grant a revocable license, to include the specific duration of

the license and the specific benefits to be derived by VA, and (3) a written agreement to be executed for each transaction involving property loans to non-Federal institutions.

Internal Audit Activities Improved

GAO's review of the internal audit activities of the Veterans Administration (VA) showed that agency-wide audit responsibilities were shared by two groups within the Administration. Both audit groups reported to officials who were also directly responsible for certain operations reviewed by the auditors. In some cases, similar reviews were made within a month's time by different groups. Also, GAO's review showed that audit resources had been expended primarily on audits of a single station rather than on programs involving several stations.

In a report to the Congress in October 1969, GAO recommended that the Administrator of Veterans Affairs take appropriate action to consolidate and organizationally relocate the two audit groups. GAO had concluded that such consolidation and relocation would (1) eliminate duplicate reviews of financial activities, (2) provide more productive use of available staff resources, (3) provide greater auditor independence and better serve the needs of management, and (4) provide greater flexibility in reviewing VA activities.

Subsequent to this report, the Administrator advised GAO, by letter dated December 12, 1969, that he had reached a conclusion consistent with GAO's recommendation to consolidate the audit activities. The Administrator had earlier stated that more of the broad-type program audits would be made.

Establishment of Criteria Defining Minor Maintenance To Be Performed by School Custodians

GAO's review of the District of Columbia's school repair and maintenance program showed that school custodians had not made minor repairs even though required to do so by the District of Columbia Code mainly because the District had not defined minor repairs. GAO estimated that during fiscal year 1967, repairs costing \$186,000 were performed by District craftsmen that should have been performed by school custodians. The performance of such work by school custodians (1) should facilitate more timely completion of the work and, possibly, at a lower cost because the custodians' wages are generally less than those of the repair and maintenance craftsmen and (2) should

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result in reducing the repair and maintenance staffing requirements and/or need for contract services.

In a report to the Congress issued in November 1969, GAO recommended that the District develop criteria defining minor repair and maintenance work to be performed by school custodians.

As a result of this recommendation, a list of minor repairs that school custodians would be expected to accomplish was prepared. GAO was subsequently advised that review of the application of the criteria would be made periodically.

Savings Through Improved Management Control Over the Efficiency of Repair and Maintenance Craftsmen

GAO's review of the District of Columbia's school repair and maintenance program, which increased from \$3.4 million in fiscal year 1967 to \$4.1 million in fiscal year 1968, showed that (1) the District's per-pupil cost of repairing and maintaining school buildings was significantly higher than the per-pupil cost for similar work as reported by other school systems and (2) labor accounted for the major part of the **District costs**. Time used by District painters was about three times greater than time spent by contractor employees to do similar work. GAO estimated that had District painters performed at the same efficiency rate as contractor painters, in-house labor costs would have been reduced about \$263,000 in fiscal year 1967. For repair and maintenance projects that did not involve painting, GAO found that District craftsmen used about 96 percent more time to do the work than had been estimated. About \$2.1 million was expended for such work during fiscal year 1967.

In a report to the Congress issued in November 1969, GAO recommended that the District evaluate the efficiency of its work force and the accuracy of its estimating procedures by (1) analyzing actual labor hours and costs of repair and maintenance work through comparison with advance estimates and (2) periodic comparisons and analyses of work done by the District craftsmen with similar work performed under contract, when feasible.

The District generally agreed with GAO's findings and said that corrective actions would be taken.

Improved Management Control Over Building Construction Inspections

Although the District of Columbia Government's policy required that construction materials and workmanship conform fully with contract drawings and specifications, GAO's review showed that (1) required and recommended tests and checks of concrete to determine compliance with contract specifications had not been made, (2) concrete had been accepted even though tests and checks showed that it did not comply with contract specifications, (3) required samples, shop drawings, descriptive literature, and certifications relating to materials, equipment, and systems—used to determine compliance with contract specifications—had not been received, and (4) compacted soil (fill and backfill) had been accepted even though tests showed that it did not meet specification requirements.

GAO's review showed further that the District had **not** established adequate controls nor provided sufficient guidance over its construction inspection activities and had not provided certain equipment to enable its site inspectors to perform all necessary tests. Although this review did not reveal any adverse effects from the deviations from specifications and recommended practices, GAO believes that such deviations lowered construction quality and may cause maintenance and repair problems after completion of construction.

GAO reported to the Congress in June 1970 that, during the review, it suggested to District officials the need for improved management control over building construction inspections by providing needed guidance and test equipment to inspectors and by implementing a better system for reporting and reviewing the results of inspection activities.

The District agreed with GAO's findings and has taken corrective actions.

Savings and Benefits to Others

Savings and benefits to others consist of realized or potential benefits other than those directly to the Government, which are attributable to action taken or planned on findings developed in GAO's examination of agency and contractor operations. The more significant savings or benefits to others identified during the fiscal year are described below.

Collection of International Postal Debts

In a review of Post Office and Department of State efforts to collect international postal debts, GAO found that as of January 1969 there were 13 countries who were in arrears in payment of their postal obligations and owed the U.S. Post Office Department and U.S. air carriers about \$9.8 million. Collection of these debts was not being vigorously pursued.

Subsequent to GAO's recommendations for more intensive efforts to make collections it was advised that \$382,572 had been collected from three of the countries that had been past due in meeting their international postal obligations. Of the amounts collected \$168,221 was for the accounts of U.S. air carriers.

Utilization of Idle Equipment Acquired Under Program of Assistance to Educationally Deprived Children

A review of the Federal program of assistance to educationally deprived children, administered by the Department of Health, Education, and Welfare, showed that certain items of audiovisual equipment, acquired at a cost of \$31,000 for use in Cleveland, Ohio, were not being utilized. The equipment had been placed in storage following project cancellation or consolidation.

GAO discussed the matter with officials of the Ohio Department of Education and the Cleveland educational agency in December 1968 and suggested utilizing the idle equipment in other projects. As a result of GAO's inquiry, the equipment was removed from storage and put into use.

AUDIT REPORTS ISSUED DURING THE FISCAL YEAR 1970

| | Reference | Addressee and date issued | | |
|---|-----------|---------------------------|---|---------------------|
| | | Congress | Committees or Members of Congress | Agency officials |
| CIVIL DEPARTMENTS AND AGENCIES | | | | |
| Review of Economic Opportunity Programs Pursuant to Requirements of Economic Opportunity Amendments of 1967: | | | | |
| Supplemental reports (see summary report, B-130515, 3-18-69): | | | | |
| Effectiveness and administration of the Community Action program: | | | | |
| Gila Indian Reservation, Ariz..... | 130515 | 7-1 1-69 | ----- | ----- |
| White Earth, Minn..... | 130515 | 7-1 5-69 | ----- | ----- |
| Phoenix, Ariz..... | 130515 | 7-22-69 | ----- | ----- |
| Lake County, Ind..... | 130515 | 8- 1-69 | ----- | ----- |
| St. Louis City and St. Louis County, Mo..... | 130515 | 8-1 1-69 | ----- | ----- |
| Detroit, Mich..... | 130515 | 9-25-69 | ----- | ----- |
| Chicago, Ill..... | 130515 | 12-4-69 | ----- | ----- |
| Effectiveness and administration of the Community Action program and selected manpower programs: | | | | |
| Los Angeles County, Calif..... | 130515 | 10-23-69 | ----- | ----- |
| Review of variations in performance among Community Action program service activities..... | | | | |
| | 130515 | 9-26-69 | ----- | ----- |
| — Effectiveness and administrative efficiency of the Concentrated Employment program: | | | | |
| Los Angeles, Calif..... | 130515 | 10-24-69 | ----- | ----- |
| Detroit, Mich..... | 130515 | 10-27-69 | ----- | ----- |
| Chicago, Ill..... | 130515 | 11- 6-69 | ----- | ----- |
| St. Louis, Mo..... | 130515 | 11-20-69 | ----- | ----- |
| Effectiveness and administration of Job Corps Centers: | | | | |
| Atterbury Job Corps Center for Men, Edinburg, Ind..... | 130515 | 7-23-69 | ----- | ----- |
| Albuquerque Job Corps Center for Women, Albuquerque, N. Mex..... | 130515 | 7-24-69 | ----- | ----- |
| Acadia Job Corps Civilian Conservation Center, Bar Harbor, Maine..... | 130515 | 8-12-69 | ----- | ----- |
| Kilmer Job Corps Center for Men, Edison, N.J..... | 130515 | 9-19-69 | ----- | ----- |
| Collbran Job Corps Civilian Conservation Center, Collbran, Colo..... | 130515 | 10-21-69 | ----- | ----- |
| — Effectiveness and administration of the Neighborhood Youth Corps program: | | | | |
| Carroll, Chariton, Lafayette, Ray, and Saline Counties, Mo..... | 130515 | 7-1 1-69 | ----- | ----- |
| Gila River Indian Reservation and Pinal County, Ariz..... | 130515 | 9- 4-69 | ----- | ----- |
| Gary, Ind..... | 130515 | 9- 5-69 | ----- | ----- |
| Kansas City, Mo..... | 130515 | 9- 5-69 | ----- | ----- |
| Maricopa County, with emphasis on the city of Phoenix, Ariz..... | 130515 | 9-1 1-69 | ----- | ----- |
| Los Angeles County, Calif..... | 130515 | 9-17-69 | ----- | ----- |
| Detroit, Mich..... | 130515 | 9-30-69 | ----- | ----- |
| Selected rural areas of Minnesota..... | 130515 | 10-14-69 | ----- | ----- |
| Chicago, Ill..... | 130515 | 10-24-69 | ----- | ----- |
| St. Louis City and St. Louis County, Mo..... | 130515 | 11-10-69 | ----- | ----- |
| — Administration and effectiveness of work experience and training projects: | | | | |
| Jackson County, Mo..... | 164031 | 7-1 5-69 | ----- | ----- |
| St. Louis City and St. Louis County, Mo..... | 164031 | 7-15-69 | ----- | ----- |
| Carroll, Chariton, Lafayette, and Saline Counties, Mo..... | 164031 | 7-1 8-69 | ----- | ----- |
| Wayne County, Mich..... | 164031 | 7-3 1-69 | ----- | ----- |

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NOTE :

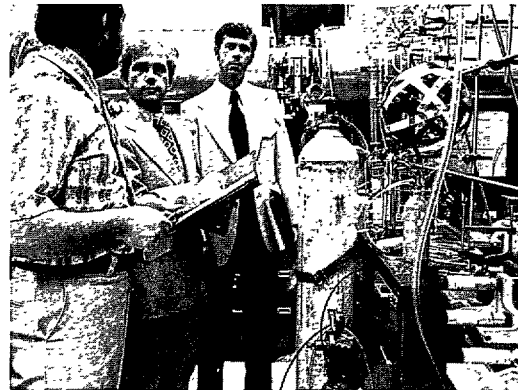
A separate Appendix to the Comptroller General's Annual Report contains more detailed information concerning the work of the General Accounting Office. Included are (1) a compilation of findings and recommendations for improving Government operations, (2) financial savings attributable to the work of GAO, (3) a list of audit reports issued, and (4) legislative recommendations.



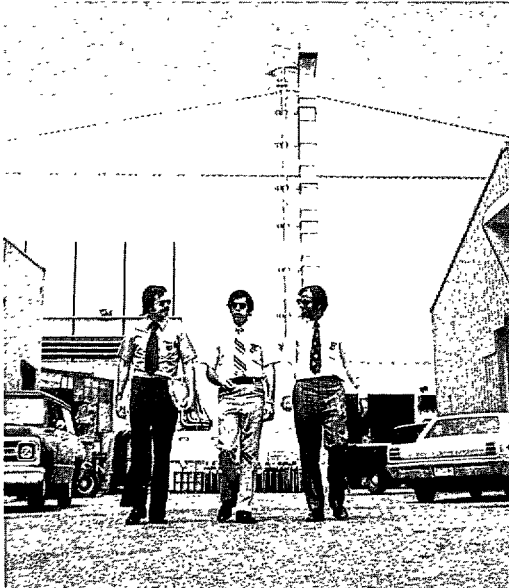
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- ① Comptroller General Elmer B. Staats (center) testifies before the Subcommittee on Fiscal Policy, Joint Economic Committee, and presents GAO's views on the Nation's system of welfare and welfare related programs. Also appearing from the left are: Richard L. Fogel, Dean K. Crowther, Gregory Ahart, and John D. Heller.
- ② Presidential Management Improvement Certificates awarded to David F. Engstrom of Office of the General Counsel and Lowell W. James of Transportation Division for outstanding work with Joint Agency Transportation Study Group. From the left: Thomas E. Sullivan, Director, Transportation Division; Mr. Engstrom; Elmer B. Staats, Comptroller General; Mr. James; and Paul G. Dembling, General Counsel.
- ③ GAO auditors at Brookhaven National Laboratory.
- ④ GAO auditors observe operations of long-path irradiation chamber to measure concentration of pollutants, National Environmental Research Center, Washington, D.C.
- ⑤ GAO auditors look over full-scale model of NASA Viking project lander to be launched to Mars in 1975.

CHAPTER ONE

HIGHLIGHTS OF ACTIVITIES
FOR THE YEAR

Basic Responsibilities

The General Accounting Office operates in the legislative branch of the Federal Government and carries out several interrelated functions that are assigned by law:

- Assisting the Congress in its legislative and oversight activities.

- Providing legal services.

- Auditing the programs and operations of Federal departments and agencies.

- Assisting in the improvement of Federal agency financial management systems.

- Settling claims and collecting debts.

GAO came into existence as an independent, non-political arm of the Congress when the Budget and Accounting Act of 1921 was enacted. Two basic purposes underlie all activities of the Office:

- Providing as much assistance to the Congress, its committees, and Members as it can, consistent with its responsibilities as an independent, non-political agency.

- Stimulating constructive actions that contribute to making Government operations more effective and more efficient.

Reorganization

During 1972 a major change was made in the organizational structure of the Office to strengthen and

improve its capability to carry out its assigned functions. This change represents the first major reorganization of the Office in over 15 years and will have an increasingly important bearing on the way in which the work of the General Accounting Office is carried out in future years. For these reasons the reorganization, which became effective April 3, 1972, is described in this chapter.

The former Civil and Defense Divisions were abolished and replaced by six new auditing divisions, each having Government-wide responsibility for assigned programs or functions. These six new divisions are:

- Logistics and Communications Division

- Procurement and Systems Acquisition Division

- Federal Personnel and Compensation Division

- Manpower and Welfare Division

- Resources and Economic Development Division

- General Government Division

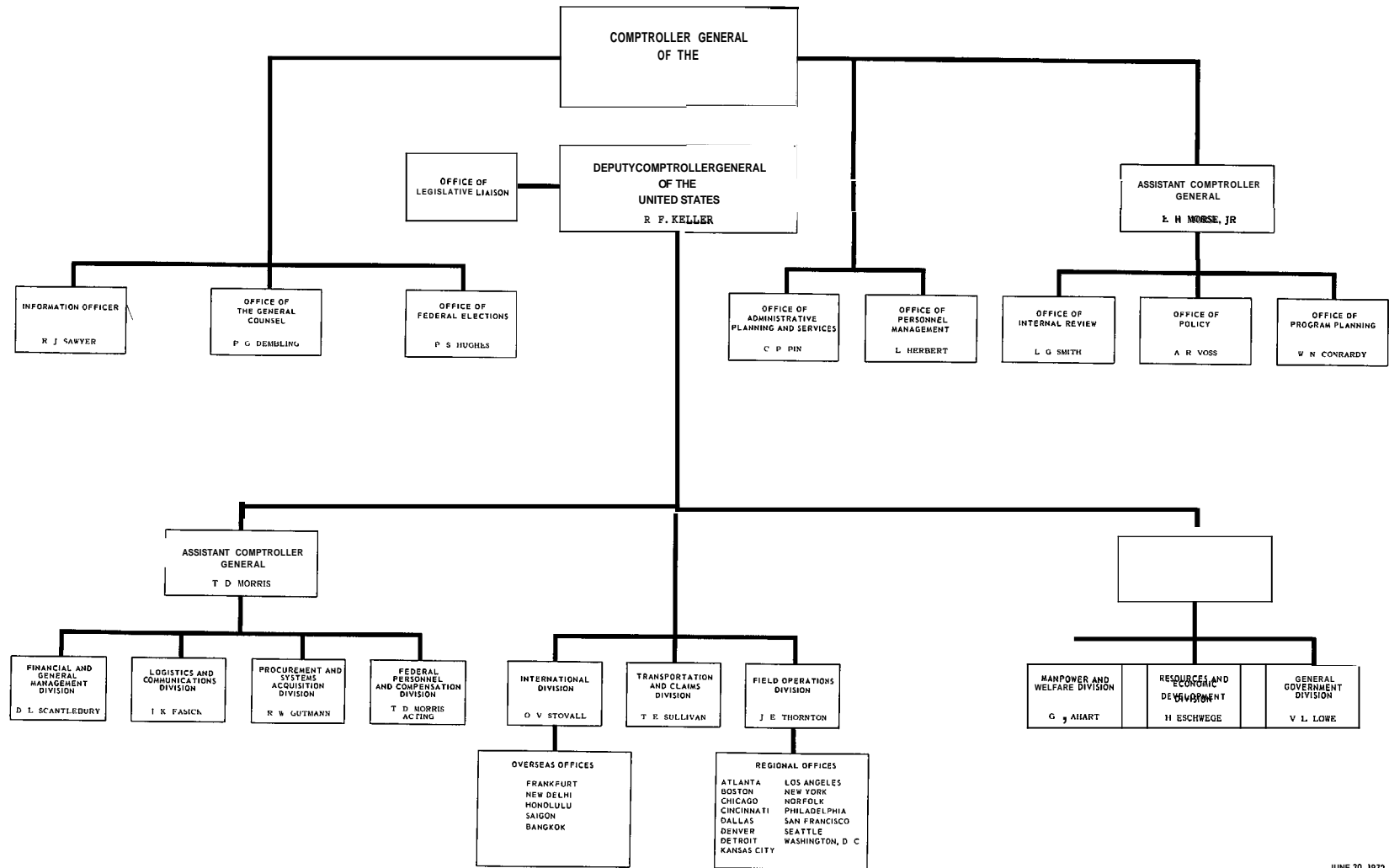
The functions of the Financial and General Management Studies Division which was established on July 1, 1971, as described in the 1971 annual report, were expanded to include responsibility for GAO reviews of accounting systems in operation and settlement of the accounts of the Government's accountable officers except for military disbursing officers. These functions had previously been assigned to the Civil, Defense, and International Divisions.

The Transportation Division and the Claims Division were merged into a single division and the transportation and traffic management review functions performed by the former Transportation Division were assigned to the new Logistics and Communications Division. The purposes of this change were (1) to concentrate all aspects of Government logistics—including the related functions of transportation, warehousing, distribution, and inventory control—in one audit division and (2) to provide better long-term opportunities for the utilization and development of the personnel assigned to the important claims and transportation payment audit functions.

The Field Operations Division remained unchanged except that it is now responsible for the annual audit of designated Government corporations and other business-type activities and the settlement of the accounts of military disbursing officers.

The International Division remained unchanged except that the responsibility for reviewing accounting systems in operation and related settlements with accountable officers was transferred to the Financial and General Management Studies Division.

UNITED STATES GENERAL ACCOUNTING OFFICE



JUNE 30, 1972

The Office of Policy and Program Planning, established July 1, 1971, was divided into three new staff offices: the Office of Policy, the Office of Program Planning, and the Office of Internal Review.

Three new positions of Assistant Comptroller General were established.

One Assistant Comptroller General is responsible for the operations of the Financial and General Management Studies Division, the Logistics and Communications Division, the Procurement and Systems Acquisition Division, and the Federal Personnel and Compensation Division.

Another Assistant Comptroller General is responsible for the operations of the Manpower and Welfare Division, the Resources and Economic Development Division, and the General Government Division.

These two Assistant Comptrollers General are direct line representatives of the Comptroller General and are responsible for overseeing and assisting the divisions assigned to them. However, it is intended that the division directors have maximum latitude in identifying the most fruitful audit areas, preparing and executing audit plans, preparing reports, defending their reports before review groups, and representing GAO with the Congress and top agency officials.

The third Assistant Comptroller General is responsible for the direction and supervision of the Office of Policy, the Office of Program Planning, and the Office of Internal Review.

The new Office of Federal Elections was established to discharge the Comptroller General's responsibilities under the Presidential Election Campaign Fund Act and the Federal Election Campaign Act of 1971. (See p. 4 of this chapter and Chapter Three.)

The chart on page 2 depicts the broad outline of our new organizational structure and identifies our top officials as of June 30, 1972.

The foregoing changes in our organization were in large part the outgrowth of an internal study by a committee headed by Deputy Comptroller General Robert F. Keller. One conclusion of his committee was that the accounting and auditing divisions of GAO should be organized on a management function and program basis. Our 1972 reorganization reflects acceptance of this conclusion. In announcing the details of the reorganization, the Comptroller General identified four benefits expected to be achieved:

First, accelerate the growth of program and functional expertise among our senior staff. If we are

to respond to the demands for broad-based and program-type reviews, our senior staff must achieve a high degree of specialization in the subject matter of the areas assigned to them. We began moving in this direction in the Defense Division in 1966 when operating groups were established in functional areas such as manpower, procurement, research and development, etc.

Second, provide more opportunities for staff growth and advancement. To do the quality of work, and make the creative contribution which is being demanded of GAO, we need to attract and retain professional personnel with outstanding capabilities and motivation—and to expand the opportunities for their advancement. I believe that our present divisional structure unnecessarily limits such opportunities. Congress has recently granted me authority to appoint up to five Executive-level Assistants in addition to our regular supergrade allocation. This new authority, plus the establishment of more divisions, will enable us to create additional positions at the Associate Director level and above.

Third, facilitate the timely completion of our work. The increased demands on Washington operating divisions tend to delay the timely completion of audit reports. Recent studies show that as much as 1 year elapses after completion of work in the field before the issuance of reports to the Congress. By creating more divisions to oversee the planning and execution of surveys and reviews, in collaboration with the regions, I believe that we can accelerate the completion of our reports.

Fourth, assist the Comptroller General to deal with his expanded responsibilities. At the same time that the variety and complexity of our accounting and auditing responsibilities have been increasing, the Comptroller General and his immediate office have become involved in new and important but very time-consuming responsibilities—the Cost Accounting Standards Board, the Procurement Commission, the Presidential Campaign Fund Act, and the Federal Election Campaign Act. These assignments are either not delegable, or they require the Comptroller General's personal attention. Hence, the Comptroller General needs additional top-management support in order to discharge his responsibilities effectively.

One feature of our reorganization deserving special comment pertains to the establishment of a separate division concerned with Government procurement. Such procurement amounted to over \$56 billion last

HIGHLIGHTS OF ACTIVITIES

year, a substantial portion of the total Federal budget. It is extremely important that procurement activities be carried out as economically and efficiently as possible and that the Federal agencies follow common procurement practices whenever feasible. By concentrating in one division GAO activities pertaining to Federal procurement—principally the operations of the Department of Defense, the General Services Administration, the National Aeronautics and Space Administration, and programs of other Federal agencies which involve substantial procurements including the acquisition of major systems—we believe that we can do a much better job for the Congress and the taxpayer in reviewing and reporting on the conduct of these operations. In addition, it will provide a focal point for followup on recommendations to be made by the Commission on Government Procurement which will make its report to Congress in December 1972.

Federal Election Responsibilities

Since our last annual report, two Federal laws came into being which injected the Comptroller General and GAO into new machinery for financing and controlling campaign expenditures for Federal elections. These laws are the Presidential Election Campaign Fund Act, approved December 10, 1971, and the Federal Election Campaign Act of 1971, approved February 7, 1972.

The responsibilities assigned to us by these laws are entirely new to our traditional functions and operations. Because of their unique character, as part of our 1972 reorganization changes, we established a separate Office of Federal Elections. The responsibilities and operations of this office are described in Chapter Three.

Highlights of Operations for the Year

Accounting for and reporting on the activities of GAO statistically do not convey the most meaningful picture of our operations and our capabilities to assist the Congress in its legislative and oversight activities. However, statistics are useful in providing some insight into the volume of work performed and the variety of activities carried out.

Assistance to the Congress

Our efforts to serve the needs of the Congress continued to increase during the year. One measure of

this increase is the fact that 479 audit reports (an increase of 19 over the previous year) were sent to the Congress, its committees, and Members. Many other services were also provided, such as making special studies, supplying information, drafting legislation, and assigning staff members to work with congressional committees.

During fiscal year 1972:

GAO representatives testified on 38 occasions before congressional committees.

GAO staff members were assigned to the staffs of 22 committees or subcommittees.

→ 528 reports were furnished to committees on pending bills—337 to the Senate and 191 to the House.

Overall, more than 25 percent of our professional staffs time was spent in direct assistance to the Congress.

A more complete discussion of our assistance to the Congress will be found in Chapter Two.

Legal Services

In carrying out his responsibility on behalf of the Congress to determine the legality of executive branch expenditures, the Comptroller General decides legal issues affecting virtually all of the Government's activities.

GAO's legal services directly or indirectly involve the full range of proposed or enacted social, economic, political, and military legislation. Legal assistance is furnished by formal decisions, comments on pending legislation, and internal advice to GAO operating divisions covering the resolution of legal issues in diverse fields of law.

During fiscal year 1972 our legal staff handled over 5,000 cases, the majority of which resulted in formal decisions prepared in the Office of the General Counsel and issued by the Comptroller General. Those decisions are final and conclusive upon the executive branch of the Government. Included in this total were 528 reports on proposed legislation, 405 advisory opinions to congressional committees or Members of Congress, and 74 reports to the Office of Management and Budget.

More complete information on our legal services is included in Chapter Four.

Auditing

GAO is perhaps most widely known for its audit-

ing of the programs and activities of Federal departments and agencies including contractors with negotiated contracts and grantees of Federal funds.

The primary purposes of our audits are (1) to evaluate the efficiency, economy, legality, and effectiveness with which Federal agencies discharge their financial, management, and program responsibilities and (2) to provide the Congress and Federal agency officials with significant and objective information, conclusions, and recommendations which will aid them in carrying out their responsibilities.

During the year we conducted 1,838 audits in the United States and in 50 other countries. This work represents about the same level of activity as in other recent years.

| | |
|--|--------------|
| Civil agency programs | 703 |
| Defense programs | 790 |
| International programs | 196 |
| Government-wide and multiagency programs | 149 |
| Total | 1,838 |

The results of much of the auditing work performed during the year will be included in reports to be published during the next fiscal year.

This year 948 formal audit reports on almost every aspect of Federal Government operations were issued :

150 reports were sent to the Congress, all of which are available to the public except those classified for national security reasons. The Comptroller General submits reports on audit findings, conclusions, and recommendations to the Congress when required specifically by law and when they are judged to be of such significance as to warrant the attention of the Congress.

329 reports were sent to congressional committees, officers of the Congress, or individual Members in response to requests for special audits or investigations, inquiries, or other types of information.

469 reports were sent to Federal departments and agency officials. These reports contain audit findings, conclusions, and recommendations calling for agency attention and action but not deemed to be of sufficient significance to address to the Congress. However, copies of many of these reports are also sent to congressional committees interested or concerned with the subject matter. Copies of those containing recommendations to departments or agency heads are provided to the Appropriations and Government Operations Committees of the House and Senate as required by the Legislative Reorganization Act of 1970.

A complete listing of audit reports issued during fiscal year 1972 will be found in Section III of the Appendix.

The audit work of GAO during the year is discussed more fully in Chapters Six through Fourteen. These chapters describe many of the more significant reports issued during the year.

New laws affecting GAO's auditing authority and responsibility are summarized in Exhibit 2 (p. 167).

Financial Management Improvement

Under the Budget and Accounting Procedures Act of 1950, GAO assists agencies in the improvement of their accounting systems and approves their systems when they are deemed adequate and in conformity with principles and standards prescribed by the Comptroller General.

In fiscal year 1972, GAO approved 10 statements of accounting principles and standards and seven designs of complete accounting systems as submitted by civil and international departments and agencies.

Of 149 civil and international department agencies' accounting systems subject to approval, 86 complete accounting systems designs had been approved by the end of fiscal year 1972. As of the same date, we had approved 27 statements of accounting principles and four systems designs in the Department of Defense.

During the year we completed a major report on the initial phases of a study of measuring and enhancing productivity in the Federal sector. This study was a joint effort of our Office with the Office of Management and Budget and the Civil Service Commission.

More detailed information on our work in the important area of financial management improvement will be found in Chapter Five.

Transportation

In meeting our responsibility for determining the correctness of charges claimed for freight and passenger transportation services furnished the United States, we audited \$1.7 billion in transportation charges this year. This amount consisted of \$1 billion paid for 4.3 million freight shipments and \$700 million for 2.7 million passenger movements.

A total of 84,445 claims of overcharges by the United States against carriers were settled for \$14.8 million, while 20,440 claims against the United States by carriers were settled for \$6.86 million.

HIGHLIGHTS OF ACTIVITIES

Assistance was furnished to the Department of Justice in some 29 legal actions involving claims against the United States for approximately \$1,270,000 covering 3,983 shipments. Nineteen suits, the subject of reports in this or prior years, were settled for about \$95,000, or about \$760,000 less than claimed.

Carriers filed 85 suits covering 22,327 shipments. Fifty-five of these suits and nearly 20,000 of the shipments covered overseas movements of household goods by the Department of Defense. Although the amount sued for is not stated in the petitions, we estimate potential liabilities to the Government of approximately \$10 million if the final rulings of the court are adverse to the Government. (For details see Chapter Thirteen.)

Settlement of Claims

One of our important functions is the settlement of claims by and against the Federal Government. During the year we settled 9,439 claims against the United States for \$69.9 million. We also settled 22,211 claims by the United States resulting in the collection of \$4.6 million. As of June 30, 1972, there were 12,246 claims under collection, representing accounts receivable of approximately \$9.5 million. There were also 1,722 claims reported to the Department of Justice for collection by suit.

More detailed information on these activities will be found in Chapter Thirteen.

Savings

It is important to note that many significant financial and other constructive benefits result from the work of the General Accounting Office that are not fully or readily measurable in terms of dollars. These benefits result from actions taken by the Congress or by Federal departments and agencies to improve their procedures, eliminate unnecessary expenditures, or make other changes which contribute to greater efficiency, economy, and effectiveness in the conduct of the Government's far-flung operations. Examples of accomplishments such as these are also included in Section II of the Appendix.

Detailed information on financial savings attributable to the work of GAO in fiscal year 1972 are set forth in Section II of the Appendix. During this year total measurable savings amounted to nearly \$292 million, including \$29 million of cash collections and

\$263 million of other savings resulting from action required or improvements recommended by our Office.

Operating Expenses

Operating expenses for fiscal year 1972 amounted to \$87.4 million. Nearly 90 percent of this amount—\$78.3 million—was for salaries and other personnel costs.

Financial statements showing our financial position, summary of operating expenses, and sources and application of funds are included in this report as Exhibits 6, 7, 8, and 9 (pp. 174 to 177).

Staffing and Training

During fiscal year 1972 we again experienced a small growth in total staff. As of June 30, total employment was 4,826, an increase of 75 over 1971. The professional staff, which includes about 500 persons with degrees in fields other than accounting, totaled 3,128, or nearly 65 percent of the total staff.

To refreshen skills and keep abreast of new concepts and techniques, 2,735 professional, technical, and support staff members participated in our numerous internal training programs. Also, 1,775 staff members participated in training outside the Office, including conferences, advanced management training, and executive development programs.

Access to Records

To make a satisfactory independent audit of the programs and activities of Federal departments and agencies requires access to their books, documents, papers, and records. The Congress recognized this need in providing broad authority for such access when it enacted the Budget and Accounting Act, 1921, and it repeated this authorization in numerous laws enacted since that time.

Most executive departments and agencies cooperate satisfactorily with us on this score. However, we continued to encounter restrictions on our access to records by certain agencies, notably the Department of Defense, the Department of State, the Treasury Department, and the Federal Deposit Insurance Corporation.

This problem is discussed more fully in Chapter Two because of its impact on our capacity to assist the Congress and, with respect to our audit work in the international area, in Chapter Twelve.

Commission on Government Procurement

The Commission on Government Procurement was established by law in 1969 to make a comprehensive study of Federal procurement statutes, policies, and practices. The law establishing this Commission named the Comptroller General as one of its 12 members. Because of the Comptroller General's membership and GAO's considerable experience over the years with Federal procurement law and audits of Government agency procurement operations, we provided a considerable amount of assistance to the Commission during its study. The Commission's report is to be submitted to the Congress in December 1972. Chapter Five contains further information on the kind of assistance provided to the Commission.

Cost Accounting Standards

The Cost Accounting Standards Board was created as an agent of the Congress in August 1970 by an amendment to the Defense Production Act of 1950 (Public Law 91-379). The Board is charged with developing and promulgating cost accounting standards for application in the negotiation and administration of defense contracts.

The Comptroller General of the United States is Chairman and he appoints four other members. Although the Board is not a part of GAO, this important activity requires a considerable amount of the time and attention of the Comptroller General and the Deputy Comptroller General.

Detailed information on these activities is contained in the annual reports of the Cost Accounting Standards Board, the first of which was submitted to the Congress on August 15, 1972.

Audit Standards

During the year work was completed in preparing

a statement of standards for auditing governmental organizations, programs, activities, and functions. In recognition of the need to promote a substantial improvement and strengthening of the quality of auditing of all levels of governmental activity, this project was begun in 1970 under GAO leadership.

Work on the project was performed by an inter-agency group composed of individuals from the major Federal departments and agencies involved in grant-in-aid programs. Assistance was also obtained from State and local governments and other professional associations.

The statement of auditing standards was officially published in booklet form on August 1, 1972. We consider it to be a very important landmark in the continuing evolution of auditing of government operations. Additional work to be done in the future includes performing demonstration audits, developing effective audit coordinating machinery, and devising effective training programs. This project is also discussed in Chapter Five.

GAO 50th Anniversary Lectures

The year 1971 marked the 50th anniversary of the establishment of GAO by the Budget and Accounting Act, 1921. As described in the 1971 annual report, a part of the commemoration of this anniversary was devoted to the presentation of 16 lectures by prominent leaders in many fields for the benefit of GAO staff members. These lectures were all related to the theme of improving management for more effective government.

During the year these lectures were compiled into a book which was published in August 1972. The book has been widely distributed to Members of Congress, government officials, colleges and universities, and many other individuals interested in government operations and the work of GAO. This book is considered to be a very important contribution to the literature on improving management of complex government operations.



CHAPTER TWO

ASSISTANCE TO THE CONGRESS

Importance of Assistance Provided

The effectiveness of the General Accounting Office is best judged by its ability to directly serve the many needs of the Congress. Our Office was established as an instrument of Congress, and, as such, it must serve that purpose first. The late Senator Allen J. Ellender, former Chairman of the Senate Committee on Appropriations, said last year:

Throughout its long history, the GAO has supplied many facts on Government programs that would otherwise not have reached the Congress. No other source, as far as I know, provides this type of analytic, objective information to the Senate and House of Representatives. The GAO's task of auditing and reporting on activities, programs, and the use of public moneys by the executive agencies is, in reality, an indispensable informational aid to Congress and, consequently, of great significance to the success of our representative Government.

The year 1972 was again marked by a continuing increase in our efforts to serve the Congress. About 26 percent of our professional and supporting staff resources were applied to providing direct assistance—up from 20 percent the previous year. We made studies, supplied information, drafted legislation, and worked on assignments with congressional committees.

We believe this greater demand on our resources is, in part, a reflection of an increasing congressional awareness of our capabilities and resources. It also reflects the growth in cost and complexity of Government programs and recognizes the need for independently obtained, objective information on them. We anticipate that even more staff resources will be re-

quired for direct assistance in the coming years to respond to continuing congressional interest in such important areas as rising welfare and medical costs; the environment; consumer protection; health, education, manpower and housing programs; and defense procurement and logistics activities.

These increased demands represent both an opportunity and a challenge. We have an opportunity to play an even more meaningful role in Congress' legislative and oversight responsibilities. At the same time we must continue to devote sufficient resources to our self-initiated work to provide the Congress with useful information and assessments on the conduct of Federal programs and activities and on whether they are efficiently and effectively managed.

We believe that fiscal year 1972 was a highly productive year in improving our relationship with and our services to the Congress. We realize, however, that more needs to be done to insure that sufficient information is available to adequately evaluate existing and new complex issues facing Government today and in the future.

This chapter discusses the many ways we directly assist the Congress. The information is furnished in accordance with past practice and pursuant to the direction of section 205(b) of the Legislative Reorganization Act of 1970.

Audits Required by Laws Enacted During the Year

The Congress enacted a number of laws in fiscal year 1972 which required our Office to undertake specific audits and investigations.

The Emergency Loan Guarantee Act created an Emergency Loan Guarantee Board for establishing Government guarantees of loans to major business enterprises threatened with bankruptcy. Our Office is required to make a detailed audit of the transactions of any borrower who makes an application for a loan guarantee. The only firm whose loans were so guaranteed during the year was the Lockheed Aircraft Corporation. Lockheed cooperated in our review of their activities but we met with resistance from the Board itself in obtaining records we believe were necessary to carry out our responsibilities under the act. This and other access-to-records problems are discussed further on page 10.

The Military Procurement Authorization Act for 1972 provided a procurement contingency fund of

\$325,100,000 for the C-5A aircraft manufactured by Lockheed Aircraft Corporation with all payments to be made through a special bank account and audited by the Defense Contract Audit Agency and the General Accounting Office. As required by the act, we furnished quarterly reports to the Congress on August 9 and November 17, 1971, and February 18 and May 30, 1972.

Our audit authority pertaining to Federal education programs was recodified by a section of the Education Amendments of 1972 which provided that we review, audit, and evaluate such programs with particular attention to the practice of Federal agencies in contracting with private firms for a wide range of educational program studies and services. Although this provision added no new authority or specific audit requirement, it was the first Federal law to specify that we undertake a review upon request of an individual Member of Congress.

Our Office undertook a year-long study of health facilities construction costs pursuant to a provision of the Health Manpower Training Act of 1971. Innovative techniques, new materials, and waiver of costly Federal standards were analyzed as possible means of reducing the cost of constructing health facilities financed in part by funds provided under the Public Health Service Act.

The Foreign Assistance Act of 1971 provided in section 658 that no funds appropriated under the provisions of that act or the Foreign Military Sales Act could be obligated or expended after April 30, 1971, until we had certified that all fiscal year 1971 funds impounded for the programs and activities of three Federal agencies—the Departments of Agriculture; Health, Education, and Welfare; and Housing and Urban Development—had been released for obligation and expenditure. After a review of records of the three agencies and consultations with the Office of Management and Budget, we notified the Congress on May 2, 1972, that all of the funds required to be released by the act had been released by the date specified.

A summary of all the legislation enacted during the year relating to the work of the General Accounting Office is included as Exhibit 2, beginning on page 167.

Monthly Listings of GAO Reports

Pursuant to Section 234 of the Legislative Reorganization Act of 1970, the Comptroller General sends

each month to the Congress, its committees, and Members a list of GAO reports issued or released during the previous month. These lists have been found to be useful to committees and Members interested in keeping a ready reference to our reports or in keeping informed on the reports issued. Each list shows the title of each report, the date of issuance, the file number, and the agencies or other organizations responsible for the activities reviewed.

GAO Liaison With the Congress, Committees, and Members

Our Office of Legislative Liaison is a central coordination point for providing the Congress with prompt and effective assistance. Because of the importance of the functions of this office, it is under the direct supervision of the Deputy Comptroller General, Robert F. Keller. The representatives from the liaison office maintain continuous contact with Members of Congress and committee staffs to:

- Coordinate the work of the Office in meeting and anticipating the needs of the committees and individual Members of Congress.

- Keep the committees of the Congress advised of information developed by our operating divisions.

- Ascertain the interests of committees so that they will be considered in planning our audit programs.

- Provide personal attention to the inquiries and requests of individual Members and committees.

- Arrange for testimony to be given before congressional committees.

The members of the Office of Legislative Liaison are Smith Blair, Jr., Martin J. Fitzgerald, Roger L. Sperry, and T. Vincent Griffith.

Access to Records

In establishing GAO in 1921, the Congress recognized that the Office would need complete access to the records of the Federal agencies. Accordingly it provided the following basic authority in section 313 of the Budget and Accounting Act, 1921 (31 U.S.C. 53, 54):

All departments and establishments shall furnish to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their respective offices as he may from time to time require of them; and the Comptroller General,

or any of his assistants or employees, when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department or establishment.

Although most executive departments have cooperated, certain departments and agencies have restricted our access to pertinent records and documents. As a result, they have seriously impaired our ability to effectively make independent reviews and evaluations of agency operations and programs and to report on such work to the Congress.

The Department of State and the Department of Defense have denied us access to records involving relations with foreign countries and U.S. participation in international lending institutions. The Treasury Department and the Federal Deposit Insurance Corporation have also denied us access to important records.

During fiscal year 1972 we experienced increasing difficulties with these departments and agencies, including an impasse with the Emergency Loan Guarantee Board which was partially resolved in August 1972.

Our review efforts at the Internal Revenue Service have been materially hampered, and, in some cases terminated, because of the continued refusal by that agency to grant us access to records necessary to effectively review IRS operations and activities.

Although IRS has permitted Federal agencies, States, individuals, contractors, and others to have access to tax returns and records, we have been given access to individual tax returns only when the return was needed in connection with another matter in which we were involved or when we had made limited reviews at the request of the Joint Committee on Internal Revenue Taxation. Otherwise we have been denied records requested for reviews of IRS operations. The reviews of IRS conducted at the request of the Joint Committee have been made pursuant to an arrangement whereby GAO and the Joint Committee agreed on certain priority matters involving the administration of the internal revenue laws.

Without access to necessary records, we cannot effectively evaluate IRS administration of operations involving billions of dollars of annual gross revenue collections (about \$208 billion in fiscal year 1972) and more than a billion in appropriated funds (about \$1.1 billion in fiscal year 1972). Such an evaluation, we feel, would greatly assist the Congress in its review of IRS budget requests and in its appraisal of IRS operations and activities. Without such access, the man-

agement of this very important and very large agency will not be subject to any meaningful independent audit.

Specific examples of our access problems were included in our testimony in July 1971 before the Subcommittee on Separation of Powers, Senate Committee on the Judiciary. A compilation of the access-to-records problems we have encountered in making audits of foreign operations and assistance programs was furnished the Chairman of the Senate Committee on Foreign Relations in September 1971. We also appeared before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations in May 1972 to provide a comprehensive statement of the difficulties we have encountered in obtaining information from the executive departments.

The access-to-records problem encountered during our reviews of international activities is further discussed in Chapter Twelve on page 132.

Standardized Information and Data Processing System

Sections 201 and 202 of the Legislative Reorganization Act of 1970 require the Secretary of the Treasury and the Director of the Office of Management and Budget, with GAO cooperation, to develop, establish, and maintain (1) a standardized information and data processing system for budgetary and fiscal data and (2) standard classifications of Federal programs, activities, receipts, and expenditures.

Under these provisions, GAO is the agent of the Congress for insuring that congressional interests will be adequately represented and considered by the Office of Management and Budget and the Department of the Treasury in developing the required systems.

This project is to serve the needs of the Congress and the executive branch. It is a major long-term project requiring the cooperation and coordination of all elements of the Federal Government. As a part of this effort, during fiscal year 1972 we interviewed Members of Congress and representatives of 42 committees concerning congressional needs for budgetary and fiscal information. The results of these interviews were reported to all Members of the Congress and congressional committees on February 17, 1972 (B-115398).

The Joint Committee on Congressional Operations

reviewed the progress of this program at hearings on March 1 and April 25, 1972.

The GAO staff assigned to this project will continue to:

Maintain liaison with the congressional users of budgetary and fiscal data to refine the information needs described in the February 1972 report to the level needed to enable the executive branch to proceed with the standard classifications and data processing system which will provide for congressional information needs.

Work with the committees directly concerned with (1) the oversight functions required by the Legislative Reorganization Act of 1970 and (2) the operation of information and computer services of the Senate and the House.

Maintain liaison and work with the systems developers in the executive branch.

Prepare comments as deemed appropriate on the annual report to the Congress required of the Secretary of the Treasury and Director of the Office of Management and Budget by section 202 of the Legislative Reorganization Act of 1970. This section calls for annual progress reports on the development of the information and data processing systems and standard classifications these officials are required to develop.

Reports to the Congress

Reports on audits of Federal programs and activities initiated by GAO constitute a major means of keeping the Congress informed of the programs it authorizes and funds. While our reports to the Congress can cover any of a great number and wide variety of Government programs and activities, we make every effort to devote our audit efforts to subjects of current or future interest to the Congress and its committees and to report the results in time to be considered in relevant legislative proceedings.

Reflecting the increased interest of the Congress, more and more effort is being devoted to assessing the results of programs in terms of the objectives set forth in the authorizing legislation. Some examples of such reports issued to the Congress during the year follow.

The Federal Bureau of Narcotics and Dangerous Drugs, States, local agencies, and industry needed to do much more to reduce the diversion of legitimately manufactured drugs into illicit channels. Bureau estimates indicated that 90 percent of the dangerous

drugs widely used in medical practice were diverted to the illicit market unintentionally from licensed sources—manufacturers, distributors, doctors, and pharmacists. The opportunities for diversion appeared endless. We found the Bureau was making some progress in curbing diversion, but much more needed to be done. We made several recommendations to the Bureau for strengthening its methods to curb diversion, including working with industry to establish a program for better self-regulation. (See Appendix, Section I, Item 184.)

The major goal of the Bureau of Indian Affairs education program is to close the education gap between Indians and other Americans by raising the academic achievement level of Indian students up to the national average by 1976. We evaluated the management methods used by the Bureau in meeting this goal and found that apparently relatively little progress had been made. In fact its education programs had not been designed to achieve this goal. We suggested enactment of legislation requiring the Bureau to furnish certain specific information described in our report, which the Congress could use to evaluate the progress being made in improving Indian education. (See Appendix, Section I, Item 36.)

In a review of progress and problems of the Office of Air Programs, Environmental Protection Agency, in reducing air pollution from automobiles, we found that, because of a number of administrative weaknesses, the control of such pollution had not been as effective as necessary. In prior industry recalls related to automobile safety, generally only 30 to 40 percent of owners notified returned their cars for modifications. There was no reason to expect that a significantly greater number of owners would voluntarily return their cars for modification when notified that their cars' emissions exceeded the standards. As a result, the potential effectiveness of the recall program could be lessened significantly. We suggested Congress require by legislation that car owners notified that their cars' emissions exceed established standards return them for modification. (See Appendix, Section I, Item 83.)

In performing a followup review of the enforcement by the Department of Agriculture's Consumer and Marketing Service of sanitation standards in poultry plants reported on 2 years previously, we found that actions taken by Agriculture had not been successful at the 68 plants we visited. For each of the

plants, supervisory inspectors, who accompanied us and evaluated each plant for compliance with the agency's standards, reported deficiencies. These varied from plant to plant. Many of the sanitation deficiencies appeared to have existed over a long period. Strong, day-to-day enforcement by the agency's plant inspectors and effective supervisory control appeared to be lacking. Weaknesses in the agency's enforcement of sanitation standards may have been widespread. (See Appendix, Section I, Item 10.)

The Food and Drug Administration (FDA) is required by law to provide assurance that food products shipped across State borders—which includes most of the foods purchased by the American people—are processed under sanitary conditions and are safe, pure, and wholesome. We found that FDA inspections had indicated that sanitary conditions in the U.S. food industry had deteriorated during the past 3 years. FDA did not know how extensive these insanitary conditions were and could not insure the consumer protection required. We advised Congress that, after receiving a more accurate inventory of food plants under FDA's jurisdiction and an interim plan of action, it should consider the adequacy of FDA's inspection coverage within the resources available under its current appropriation. (See Appendix, Section I, Item 13.)

Strategic Arm): Forces units—the forces relied upon for military actions short of general nuclear war—would have had difficulty deploying units at full strength because many units were not combat ready. Considerable maintenance support was required to bring the essential combat and combat-support equipment to fully ready conditions. Subsequently, some funding restrictions were lifted and increased overall unit readiness was anticipated. (See Appendix, Section I, Item 216.)

Notwithstanding the priority given to evaluation of ongoing programs, review of the efficiency and economy of Government operations continued to be an important part of our audit effort. As in past years, we frequently reported to the Congress on opportunities for improving management and achieving savings. Some examples include:

Substantial costs were being incurred by the Department of Defense to replace potting compounds which protect electrical connections and other components in military equipment from moisture and corrosion. After prolonged exposure to high heat and

humidity, the compounds reverted to liquids leaving the components unprotected. (See Appendix, Section I, Item 136.)

The military services could reduce costs through more interservice support overseas. Although much had been accomplished within the Pacific Command, more could have been done. The Command needs to take a more active role in the management of interservice support. (See Appendix, Section I, Item 194.)

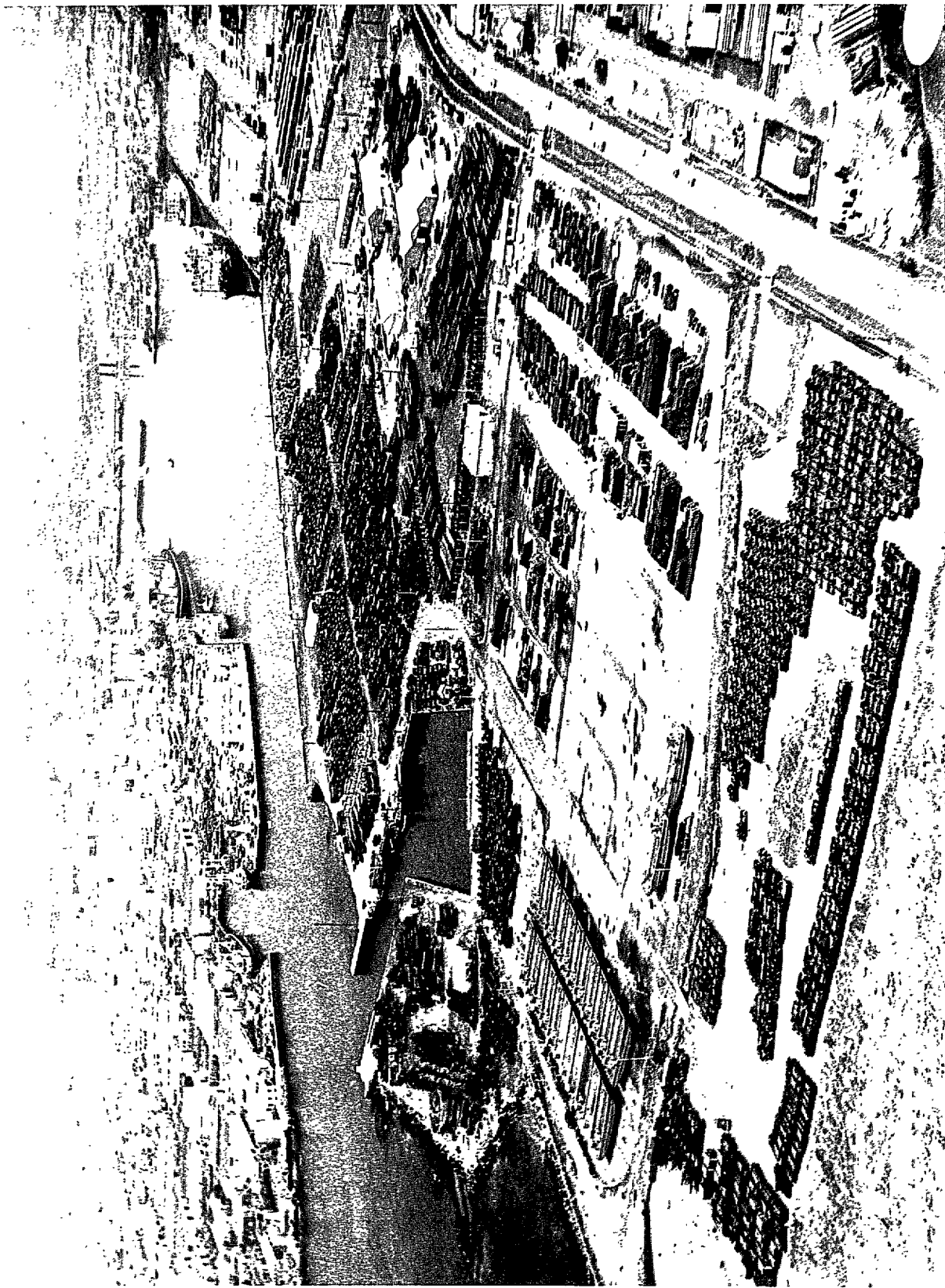
The Air Force did not charge the Communications Satellite Corporation (COMSAT) for over \$6 million (as computed by GAO) of launch service costs through fiscal year 1969 in connection with agreements between COMSAT and the National Aeronautics and Space Administration (NASA) whereby NASA supplied launch services to place commercial communications satellites into orbit. Some of the services that NASA agreed to furnish actually were provided by the Air Force. (See Appendix, Section I, Item 229.)

Not all of our reports discuss findings which require substantive corrective actions. For instance, our second review of the phasedown of U.S. military activities in Vietnam showed that considerable progress had been made to insure an orderly phasedown and effective redistribution of equipment and material, as well as to cope with other problems identified in our earlier review. Additional problems were discussed, however. (See Appendix, Section I, Item 129.)

Still other reports covered both the effectiveness and the economy and efficiency of Government programs. For instance, we reported on the rapid buildup of unprocessed default claims under the Guaranteed Student Loan Program and the necessity for improved claims-collection operations in the Office of Education, Department of Health, Education, and Welfare. We also called attention to the absence of a national refund policy for educational institutions participating in the Guaranteed Student Loan Program in connection with defaulted loans as well as loans involving students who have died or who have become totally and permanently disabled. (See Appendix, Section I, Item 224.)

Evidence that our reports on self-initiated reviews are of direct assistance to the Congress was most clearly stated in the House Appropriations Committee's report on the Department of Defense appropriations bill for fiscal year 1973. The report stated:

The Committee has been greatly assisted in its efforts to evaluate Defense budget proposals by studies made by the



Naha Military Port, Okinawa, jammed with material returned from Vietnam.

General Accounting Office. A total of 150 reports on defense programs have been made available to the Committee by the GAO during the period of July 1, 1971 through July 31, 1972. The Committee and the Congress must have available objective studies of the details of selected Defense programs. The GAO studies supply the needed objectivity. Many savings have been made possible by these efforts. Reports made to the Committee include:

- 1) The Army's Program to Modernize Ammunition Plants;
- 2) The Army's Base Operating Information System;
- 3) The Army's Combat Service Support System;
- 4) The Acquisition of Major Weapon Systems;
- 5) Cost Estimating for Major Acquisitions;
- 6) Audit of Payments from Special Fund to Lockheed Aircraft Corporation for C-5A Aircraft Program;
- 7) Causes of Shipbuilders' Claims for Price Increases;
- 8) Systems Engineering of the Army's Tactical Operations System Operable Segment;
- 9) The Army's Request for Funds for the Evaluation of Three Helicopters.

As can be seen from this brief listing, GAO reports cover many areas and programs. The Committee expects to continue to rely heavily on the information provided by the General Accounting Office.

We are appreciative of the Committee's comments and hope that our assistance to this and other committees will be equally effective in the future.

Reports to Committees

An increased portion of our efforts during the year was devoted to investigations and reviews undertaken at the specific request of congressional committees. Our Office plays an active role in making our knowledge and resources available to committees by maintaining and encouraging close working relationships with their Members and staffs. Briefing sessions concerning our ongoing and planned audit work and informal information exchanges on matters of mutual interest serve as the primary means of continuing dialogue.

Requests from congressional committees and individual Members (see following section) are given first priority. We realize that often committees must consider, evaluate, and report on matters with little advance notice and frequently within a relatively short time. Accordingly, we frequently adjust our work schedules and occasionally postpone or delay self-initiated work to perform work requested by committees or to expedite completion of reports for the use of committees upon learning that the subjects of audits and reviews initiated by us were also on committees' current oversight and legislative agenda.

In fiscal year 1972, we issued 127 special reports on audits and reviews requested by congressional committees. These reports involved many subjects, including Navy shipbuilding, treatment of drug addicts in Federal facilities, and highway safety improvement programs. Other examples of reports to committees issued during the past year follow.

The Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations, asked us to obtain answers to 23 specific, detailed questions about the drug Isoniazid, which was used by an estimated 20 million Americans. The report presented our findings, together with supporting documents of the Federal agencies involved. (See Appendix, Section I, Item 14.)

A report to the Subcommittee on Employment, Manpower and Poverty, Senate Committee on Labor and Public Welfare, on December 17, 1971, discussed how \$600 million was allocated, first by the Federal Government, then by the States, under section 9 of the Emergency Employment Act of 1971. This act authorized a total of \$1 billion for fiscal year 1972 and \$1.25 billion for fiscal year 1973 to provide unemployed and underemployed persons with temporary employment in public service jobs during periods of high unemployment. The December report was the first in a series of reports resulting from the Subcommittee's request that we perform a continuing evaluation of the program. (B-163922, Dec. 17, 1971)

We furnished the Joint Committee on Atomic Energy a report in January 1972 on improvements needed in the review and evaluation by the Atomic Energy Commission of applications to construct and operate nuclear powerplants. Because of the growth of the nuclear power industry, AEC's workload and length of time for processing license applications had increased substantially in recent years. Management did not give priority to improving the review and evaluation process, but concentrated its available resources on the review of individual cases and did not request specific resources necessary to develop and make improvements. AEC had not established an effective, independent review group to conduct management reviews of regulatory staff activities. (See Appendix, Section I, Item 190.)

Two reports issued in March 1972, one to the House Ways and Means Committee and the other to the entire Congress, highlighted our March 20, 1972,

testimony before the Joint Economic Committee's Subcommittee on Fiscal Policy on the effectiveness of Federal welfare programs. The report to the Ways and Means Committee discussed opportunities to increase substantially the amount of child support which could be collected from absent parents of families receiving assistance under the program of aid to families with dependent children. This program is administered by the States with general guidance provided by the Department of Health, Education, and Welfare. Among other things, the Department had not emphasized collection of child support because there was a shortage of regional staff and because this activity represented a small part of the program. (See Appendix, Section I, Items 40 and 44.)

Administration of the Federal highway use tax by the Internal Revenue Service was the subject of a May 15, 1972, report to the Legal and Monetary Affairs Subcommittee, House Committee on Government Operations. Our review was restricted to an analysis of data made available by IRS because it denied us access to tax administration records on the basis that only the Joint Committee on Internal Revenue Taxation had the right to review administration of the tax laws. We had been requested to report on a 7.7 percent delinquency rate in highway use tax payments, the action taken to identify truck owners **liable** for the use tax, the extent to which truck owners liable for the tax did not file returns, and the significance of the corresponding unpaid taxes. We found that in recent years IRS had been unable to fully follow through on information provided by the States in its returns compliance program. We said that IRS should strengthen enforcement of the law by requiring that decals be placed on trucks for which the tax had been paid. (See Appendix, Section I, Item 247.)

Our report on a review we initiated of child-care activities in the District of Columbia was issued to the House Education and Labor Committee at its request. This review was a unique effort to examine how child care actually was being carried out in a given locality. Funds were provided for child care under 11 Federal programs and administered by three local agencies and several private organizations. We concluded that the numerous Federal programs and a lack of coordination at the local level contributed to a number of problems in providing economic and effective child care. The report was dis-

cussed extensively in the House debate on the Office of Economic Opportunity authorization bill. (See Appendix, Section I, Item 35.)

For the third successive year, we provided the Congress with an independent appraisal of the complex problems associated with weapons systems development and procurement by the Department of Defense. This work culminated in the issuance of a report on 77 weapons systems reviewed shortly after the close of fiscal year 1972. The report was preceded, however, by the issuance of GAO-prepared staff studies on each weapon system to the Appropriations and Armed Services Committees of both Houses. These studies were issued in time for the Committees' use in consideration of the fiscal year 1973 authorization and appropriation requests for the Department of Defense. (See Appendix, Section I, Item 132.)

Reports to Individual Members of Congress

Our Office continued to make its services available to individual Members of Congress. Our policy is to serve each Member's legitimate needs to the extent our resources permit.

Many times, local problems with Federal programs brought to a Congressman's attention, upon investigation, reflect deficiencies which are national in scope and which deserve attention by top agency management or serve as the basis of further GAO audit work.

To conserve our resources, we encourage Members to first bring any problem to the attention of the Federal agency administering the program in question. If this approach does not obtain satisfactory results, we then review the matter and furnish the Member a report. Sometimes we undertake reviews of matters without first referring them to another agency, if for example, the subject is one we are uniquely qualified to handle or action by another agency would be impractical. We attempt to work closely and consult frequently with the Member or his staff on matters referred to us to be sure a satisfactory result is obtained promptly and with the least expenditure of manpower.

During fiscal year 1972, our Office issued 189 audit reports to individual Members, covering subjects touching on a multitude of Federal programs and activities. We received numerous requests concerning agencies, such as the Department of Defense, the Of-

Office of Economic Opportunity, and the Department of Health, Education, and Welfare. The following selected examples provide some insight into the range of subjects we reviewed at the request of individual Members during the year.

At the request of Congresswoman Ella T. Grasso and Senator Lowell P. Weicker, we reviewed the purchase of equipment by the Department of the Army from a watchmaking company and the related award of a contract to produce certain time fuses. We concluded that the study performed by the Army which served as the basis for its action was insufficiently comprehensive because additional, available machine capacity had not been considered. The Army conducted another study to remedy the inadequacy. (B-173451, Jan. 20, 1972)

Congressman Benjamin S. Rosenthal asked us to inquire into a low-rent housing project in Queens, N.Y., which had been proposed by the New York City Housing Authority. We found a number of problems, including a lack of written assurance that the Authority would bear any abnormal foundation costs, location of the site adjacent to a six-lane expressway, and possible insufficient school capacity to serve the project's children. The estimated total development cost did fall within the **limits** prescribed by the Department of Housing and Urban Development. (B-118718, Dec. 1, 1971)

Grants by the Department of Health, Education, and Welfare to the National Reading Center Foundation were the subject of similar reports issued to Senator William Proxmire and Congresswoman Edith Green. Both reports discussed the procedures followed in the award of the first grant to the Foundation. We found these procedures inadequate to reasonably insure the operation of a workable program to improve reading skills. Also discussed were problems relating to unallowable grant costs and a conflict over the roles of the various parties involved. (B-164031(1), Apr. 4, 1972)

On behalf of Senator Edward Brooke, we undertook a comprehensive study of the impact of Federal programs on economic development, employment, and housing in New Bedford, Mass. This study provided us with a unique opportunity to develop skills in analyzing the impact of a broad range of Federal, State, and local efforts on a single city. New Bedford had deep-seated unemployment and economic problems which defied quick solution. Our report to Senator Brooke indicated that the basic problem was

how to attract new industries to create jobs and improve wages. Many attempts had been made at Federal, State, and local levels to improve the economic situation. We suggested that previously established plans and objectives be reexamined and revised, when necessary, in view of previous experience and the continuing need for increased economic activity. (See Appendix, Section I, Item 23.)

Congressman H. R. Gross requested us to review the site selection and contract awards for construction and mechanization of the New York Bulk and Foreign Mail Facility. We found that the cost of the facility would substantially exceed the initial cost estimates because of problems in site selection and preparation, selection of contractors for architect and engineering services, contract award and evaluation, and a sole-source procurement of parcel-sorting machines. (See Appendix, Section I, Item 154.)

We prepared cost estimates for major items in a proposed system of universal voter registration at the request of Senator Edward M. Kennedy. Our report contained estimates on startup and continuing costs. (B-173959, Nov. 2, 1971)

Members of Congress also sought and obtained specific information on many other activities of the Office during the year. A total of 749 written reports were furnished to Members of Congress upon their request concerning claims by and against the United States involving Government contracts, compensation of civilian personnel, travel, per diem, transportation, pay and allowances of military personnel, and other kinds of claims. p

Reports on Pending Legislation

First-hand review and observation of agency programs and activities enable our Office to provide well-informed, independent advice on proposed legislation. Consequently, congressional committees regularly call upon us to comment on pending bills. During this past year we furnished 528 such legislative reports to various committees, as shown on page 18.

A number of the bills on which we reported related to matters directly affecting the legislative branch. We commented on bills concerning the reporting of impoundments of appropriated funds (S. 2027, S. 2581, and S. 2604), the reprogramming of appropriated funds (H.R. 10429), and the declassification of information

Senate Committees

| | |
|---|-----|
| Agriculture and Forestry | 1 |
| Armed Services | 1 |
| Banking, Housing, and Urban Affairs . . . | 6 |
| Commerce | 167 |
| District of Columbia | 4 |
| Government Operations | 29 |
| Interior and Insular Affairs | 4 |
| Judiciary | 5 |
| Labor and Public Welfare | 86 |
| Post Office and Civil Service | 16 |
| Public Works | 3 |
| Rules and Administration | 3 |
| Veterans Affairs | 12 |

337

House Committees

| | |
|---|----|
| Armed Services | 1 |
| Education and Labor | 2 |
| Government Operations | 56 |
| House Administration | 2 |
| Interstate and Foreign Commerce | 13 |
| Judiciary | 57 |
| Merchant Marine and Fisheries | 25 |
| Post Office and Civil Service | 10 |
| Public Works | 4 |
| Science and Astronautics | 11 |
| Standards of Official Conduct | 2 |
| Veterans Affairs | 2 |
| Ways and Means | 6 |

191

Total 528

(H.R. 10277), as they related to the availability of information concerning executive branch operations. We reported on one bill (S. 2926) which would create an independent board to regulate the security classification system and to provide greater congressional and public access to Government information.

We also furnished our views on three bills (S. 343, S. 344, and S. 1885) which would require certain persons, including Members of Congress and legislative branch employees earning over \$18,000 per year, to file periodic public financial disclosure reports with the Comptroller General. We strongly suggested that the administrative responsibilities under these bills not be vested in our Office.

We provided comments on two bills (H.R. 5259 and S. 2492) which would transfer from the Clerk of the House and the Secretary of the Senate to the Comptroller General the responsibility for administering a revised Federal Regulation of Lobbying Act. Other bills on which we reported would permit GAO to review nonappropriated funds and related activities of the executive branch (S. 2782), would establish the calendar year as the Government's fiscal year (S. 1875), and would authorize suits in the U.S. District Court for the District of Columbia by the Comptroller General against officers and employees of the executive branch for declaratory and injunctive relief to prevent illegal expenditure or obligation of public funds (S. 2702).

We commented on several bills (H.R. 11280, H.R. 7299, and H.R. 8284) relating to disclosure of receipts and expenditures connected with campaigns for elective Federal offices, Public Law 92-225, approved February 7, 1972, gave our Office responsibility for such matters with regard to presidential and vice-presidential campaigns. (See Chapter Three.)

Other bills on which we commented at the request of committees concerned subjects such as payment of bills for transportation of Government personnel and property, improvement of Federal data processing technology, amendments to the Intergovernmental Cooperation and Intergovernmental Personnel Acts, a proposed national power grid system, executive branch reorganization, environmental protection, general and special revenue sharing, disposal of excess and surplus government property, and higher education.

Staff Assistance to Committees

The Budget and Accounting Act, 1921, requires our Office to make staff members available upon request to committees having jurisdiction over revenues, appropriations, and expenditures. In addition, it has been our longstanding policy to assign personnel to such other committees of the Congress as may request staff assistance, provided that manpower and funds are available to permit such assignments.

As an illustration of the types of committee inquiries in which our staff participated, the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations used the services of several of our auditors in connection with its investigation of trafficking in surplus war material in Europe. At the conclusion of these assignments, the GAO staff mem-

ber who supervised a large part of the review testified in detail before the subcommittee concerning the information developed during the investigation. The Chairman stated that the work performed by the G.40 staff, and particularly the testimony, contributed substantially to the success of the inquiry.

Staff members from our Boston and New York regional offices were assigned to the Senate Committee on Commerce to assist in the Committee's investigation of the impact of organized crime on businesses. The Subcommittee on Labor of the Senate Committee on Labor and Public Welfare conducted a study of the Nation's private pension plans in which several members of our professional staff participated. In both cases, the Committees stated that the efforts of the

assigned employees represented significant and valuable additions to the investigations.

As in past years, a number of our staff members were assigned to the Surveys and Investigations Staff of the House Committee on Appropriations to assist in that Committee's work. These assignments involved inquiries into a broad range of subjects, including the F-14 and F-15 aircraft programs, manpower policies and practices in the Department of Health, Education, and Welfare, and the Agriculture Department's food stamp program.

As provided in the Legislative Reorganization Act of 1970, the following table is included to summarize the assignments of GAO personnel to congressional committees during fiscal year 1972.

SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1972

| Committee | Length of assignment | | Salary | Travel expenses | Other expenses ¹ | Total cost |
|---|----------------------|----------|----------|-----------------|-----------------------------|------------|
| | From | To | | | | |
| Senate | | | | | | |
| Committee on Commerce: | | | | | | |
| Amato, Peter | 9-15-71 | 10- 8-71 | 3 483 | 419 | 41 | 943 |
| Keelan, Donald R | 10-20-71 | 12-23-71 | 3 3,425 | 1,007 | 291 | 4, 723 |
| | 3-13-72 | 6-12-72 | 34,613 | 2,509 | 392 | 7,514 |
| Committee on Government Operations: | | | | | | |
| Permanent Subcommittee on Investigations: | | | | | | |
| Allen, Robert E | 12-14-70 | 7- 9-71 | 459 | 174 | 39 | 672 |
| Balaban, Jack | 12-16-59 | 12-30-71 | 10, 742 | 142 | 913 | 11, 797 |
| Balach, William J | 1-25-71 | 7-13-71 | 326 | | 28 | 354 |
| Barnes, Cheryl S | 12-27-71 | 2-29-72 | 2,458 | 216 | 209 | 2, 883 |
| Boyer, David A | 12-27-71 | 1- 8-72 | 430 | 62 | 37 | 529 |
| Cesario, Michael D. ² | 12-20-71 | 6-30-72 | 4 7,223 | 19 | 613 | 7,855 |
| Combs, David F | 2-14-72 | 2-29-72 | 599 | | 51 | 650 |
| Dumont, Charles R | 1-13-69 | 7-24-71 | 798 | 235 | 68 | 1,101 |
| Dutton, Darryl W | 6-26-70 | 9-30-71 | 599 | 727 | 51 | 1,377 |
| Frame, Maurice | 12-10-62 | 12-16-71 | 8, 867 | 108 | 754 | 9,729 |
| Gast, Raymond L | 2- 8-72 | 5-18-72 | 4 3, 720 | | 316 | 4,036 |
| Gordon, Joseph Y | 7-22-70 | 9-19-71 | 504 | | 43 | 547 |
| Hansen, Eldon W | 12- 6-71 | 6-30-72 | 4 9,682 | 500 | 823 | 11,005 |
| Helmer, Richard A. ² | 12- 6-71 | 6-30-72 | 4 9,894 | 631 | 841 | 11,366 |
| Karle, Richard A | 2-18-71 | 7- 9-71 | 301 | 137 | 26 | 464 |
| Kiessling, Linda | 10-29-69 | 9-13-71 | 1,947 | | 165 | 2,112 |
| Lopes, Donald F | 2- 8-72 | 5-18-72 | 4 3,620 | 4 | 307 | 3,931 |
| Martin, David R | 12- 6-71 | 6-30-72 | 4 7, 508 | 556 | 638 | 8,702 |
| Messick, Lynn C | 6- 5-62 | 12-30-71 | 8,049 | | 684 | 8, 733 |
| Nunnally, Thomas E | 3-24-61 | 12-30-71 | 13, 378 | 1, 085 | 1, 137 | 15,600 |
| Potter, Wilbur H | 1-10-71 | 2-29-72 | 1,957 | 297 | 166 | 2,420 |
| Shevlin, Joseph J | 4-16-62 | 12-30-71 | 9, 665 | | 822 | 10,487 |
| Smith, John A | 2-14-72 | 2-28-72 | 582 | | 49 | 631 |
| Tschirhart, John E. ² | 12- 7-71 | 6-30-72 | 4 6, 761 | 22 | 575 | 7, 358 |
| Unger, Joseph | 4- 8-71 | 8-13-71 | 1, 044 | 26 | 88 | 1, 158 |
| Weiss, Lewis L | 4-19-71 | 8-13-71 | 1,394 | | 118 | 1,512 |

See footnotes at end of table.

SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1972—Continued

| Committee | Length of assignment | | Salary | Travel expenses | Other expenses ¹ | Total cost |
|--|----------------------|----------|-----------|-----------------|-----------------------------|------------|
| | From | To | | | | |
| Senate—Continued | | | | | | |
| Committee on the Judiciary: | | | | | | |
| Lyons, Donald F | 1-17-72 | 2-29-72 | 3 2 081 | | 177 | 2 258 |
| Roemer, Garry | 1-17-72 | 2-29-72 | 3 1. 748 | 10 | 149 | 1, 907 |
| Committee on Labor and Public Welfare: | | | | | | |
| Subcommittee on Labor: | | | | | | |
| Anderson, Homer W | 4-22-70 | 12-31-71 | 3 13. 714 | | 1. 166 | 14. 880 |
| Boyd, John C. ² | 3-13-72 | 6-30-72 | 3 6. 342 | | 539 | 6. 881 |
| Elliott, Allen R | 5-11-71 | 5-10-72 | 3 12. 564 | 9 | 1. 068 | 13. 641 |
| Hatchell, Otis D., Jr | 5-11-71 | 12-31-71 | 3 5. 585 | | 475 | 6. 060 |
| Kulanko, Andrew F | 3- 9-71 | 7- 6-71 | 3 185 | | 16 | 201 |
| Lively, Roger L | 9-14-71 | 3-13-72 | 35. 825 | | 495 | 6 320 |
| | 5- 2-72 | 5-13-72 | 3 625 | | 53 | 678 |
| Selkowitz, Leonard ² | 12- 6-71 | 6-30-72 | 15. 072 | | 1, 281 | 16. 353 |
| Shiplett, Dennis D.2 | 3-13-72 | 6-30-72 | 3 4, 230 | | 360 | 4. 590 |
| Stevens, Carrie ² | 5-22-72 | 6-30-72 | 1. 690 | | 144 | 1. 834 |
| Wasson, Gary R | 9-14-71 | 3-10-72 | 3 6, 807 | | 579 | 7. 386 |
| Subcommittee on Health : | | | | | | |
| Daitch, Frederick A. ² | 5-12-72 | 6-30-72 | 3 1, 682 | 47 | 143 | 1, 872 |
| Denkers, Gerald N | 2- 9-72 | 2-15-72 | 164 | | 14 | 178 |
| Durham, Calvin J | 2-16-72 | 2-29-72 | 243 | 5 | 21 | 269 |
| Hively, Harlan R | 2-16-72 | 2-29-72 | 204 | 5 | 17 | 226 |
| House of Representatives | | | | | | |
| Committee on Appropriations: | | | | | | |
| Surveys and Investigations Staff: | | | | | | |
| Bedell, Warren F | 1-29-70 | 12-30-71 | 11. 035 | 3 2. 097 | 938 | 14. 070 |
| Burgess, Edna R | 10- 3-66 | 12-30-71 | 5. 188 | | 441 | 5. 629 |
| Davis, Robert A | 7-18-66 | 12-30-71 | 12. 932 | 3 96 | 1. 099 | 14. 127 |
| De Bord, Barbara | 3-20-72 | 5-24-72 | 1, 329 | | 113 | 1. 442 |
| Gabriel, Anthony J | 11- 2-70 | 12-30-71 | 10. 836 | 3 1, 623 | 921 | 13. 380 |
| Hoover, John M | 7-26-71 | 6-30-72 | 12. 293 | 3 1. 717 | 1. 045 | 15. 055 |
| Horwath, Charles J., Jr | 10-14-71 | 3-24-72 | 5. 362 | 3 1. 087 | 456 | 6. 905 |
| Kiessling, Linda | 12-13-71 | 1-14-72 | 946 | | 80 | 1. 026 |
| Lee, Mary K | 5-26-71 | 8-27-71 | 1. 001 | | 85 | 1. 086 |
| Matthews, Edward J | 10-12-71 | 3-29-72 | 6. 224 | 3 1, 411 | 529 | 8. 164 |
| Metz, Thomas C. ² | 6-19-72 | 6-30-72 | 769 | | 65 | 834 |
| Olson, Philip A2 | 9-15-71 | 6-30-72 | 13. 259 | 3 2. 222 | 1, 127 | 16. 608 |
| Remke, John A | 7-14-71 | 1- 5-72 | 8. 894 | 3 913 | 756 | 10. 563 |
| Shaffer, Thomas S. ² | 6-26-72 | 6-30-72 | 360 | | 31 | 391 |
| Squellati, Clarence P2 | 9-13-71 | 6-30-72 | 18. 235 | 3 3. 386 | 1, 550 | 23. 171 |
| Committee on Armed Services: | | | | | | |
| Special Subcommittee for Special Investigations: | | | | | | |
| Lewis, Ernest E., Jr. | 8- 6-70 | 12-30-71 | 9. 485 | | 806 | 10, 291 |
| Underwood, Warren C. | 9- 4-70 | 12-30-71 | 6. 571 | 484 | 559 | 7. 614 |
| Committee on Banking and Currency: | | | | | | |
| Cohen, Raymond | 7- 8-70 | 12-30-71 | 9. 547 | 1. 009 | 811 | 11, 367 |
| Curran, James M. | 5- 9-72 | 5-12-72 | 277 | | 24 | 301 |
| Koblick, Barry M. | 5- 9-72 | 5-12-72 | 198 | | 17 | 215 |
| | 5-30-72 | 6- 1-72 | 198 | 1 | 17 | 216 |
| Kunzler, John A. | 11- 9-70 | 12- 5-71 | 4. 994 | | 425 | 5. 419 |

See footnotes at end of table.

SUMMARY OF ASSIGNMENTS OF PERSONNEL TO CONGRESSIONAL COMMITTEES—FISCAL YEAR 1972—Continued

| Committee | Length of assignment | | Salary | Travel expenses | Other expenses ¹ | Total cost |
|---|----------------------|----------------|------------------|-----------------|-----------------------------|------------|
| | From | To | | | | |
| House of Representatives—Continued | | | | | | |
| Committee on Government Operations: | | | | | | |
| Bittman, Thomas C. | 2-16-71 | a 9-71 | 1,201 | | 102 | 1,303 |
| Subcommittee on Foreign Operations and Government Information : | | | | | | |
| Moser, Dale E. | 6- 8-70 | 12-31-71 | 9,620 | | 818 | 10,438 |
| Subcommittee on Intergovernmental Relations: | | | | | | |
| Gorman, Robert C. | 8-23-71 | 3-24-72 | 11,516 | 745 | 979 | 13,240 |
| Harter, Frederick A. ² | 1-10-72 | 6-30-72 | 8,448 | 946 | 718 | 10,112 |
| Oczkowski, William A. | 7-21-71 | 8- 9-71 | 864 | | 73 | 937 |
| Zlamal, Charles E. | 7- 7-69 | 12-31-71 | 9,254 | | 787 | 10,041 |
| Subcommittee on Legal and Monetary Affairs : | | | | | | |
| Andres, Philip J. | 11-22-71 | 3-31-72 | 3,497 | 642 | 297 | 4,436 |
| Lynch, William C. | 6- 7-71 | 5- 5-72 | 17,020 | 1,378 | 1,447 | 19,845 |
| Marek, Andrew G. | 9-13-71 | 10- 7-71 | 1,255 | 414 | 107 | 1,776 |
| Tracy, Robert D. | 10-19-71 | 3-31-72 | 6,222 | 1,076 | 529 | 7,827 |
| Subcommittee on Special Studies: | | | | | | |
| Davies, Dawn E. | 7- 1-71 | 7-23-71 | 754 | | 64 | 818 |
| Hooper, Alan M. | 6- 2-71 | 6- 2-72 | 18,616 | | 1,582 | 20,198 |
| Singleton, Roy L. ² | 6- 5-72 | 6-30-72 | 1,566 | | 133 | 1,699 |
| Committee on Interstate and Foreign Commerce: | | | | | | |
| Balakos, John N. | 4- 5-71 | 4- 2-72 | 14,597 | | 1,241 | 15,838 |
| Gadsby, J. William. | 4- 5-71 | 4- 2-72 | 16,040 | | 1,363 | 17,403 |
| Subcommittee on Commerce and Finance: | | | | | | |
| Canter, Robert J | 9-22-69 | 12-30-71 | 7,829 | | 665 | 8,494 |
| Committee on Post Office and Civil Service: | | | | | | |
| Subcommittee on Manpower and Civil Service: | | | | | | |
| Bedell, Warren F. ² | 1- 3-72 | 6-30-72 | 11,531 | | 980 | 12,511 |
| Hugler, Edward T | 2-19-68 | 12-30-71 | 12,587 | | 1,070 | 13,657 |
| Metz, Thomas | 6-21-71 | 6-16-72 | 17,895 | 63 | 1,521 | 19,479 |
| Stoner, Merle M. ² | 3- 2-70 | 12-30-71 | 12,167 | | 1,034 | 13,201 |
| | 6-12-72 | 6-30-72 | 1,478 | | 126 | 1,604 |
| Subcommittee on Census and Statistics: | | | | | | |
| Cookfair, Calvin C | 1-31-72 | 6- 2-72 | 7,996 | | 680 | 8,676 |
| Glick, Jacob P | 3- 2-72 | 6- 2-72 | 7,166 | | 609 | 7,775 |
| Subcommittee on Postal Service: | | | | | | |
| Schremp, Robert A | 8-3-71 | 9- 1-71 | 2,073 | | 176 | 2,249 |
| Select Committee on Small Business: | | | | | | |
| Michewicz, Chester F | 4-24-72 | 6-30-72 | 2,560 | | 218 | 2,778 |
| Wagoner, Joe E | 4-3-72 | 6-30-72 | 2,276 | | 193 | 2,469 |
| Committee on the District of Columbia: | | | | | | |
| Subcommittee on Housing, Youth and Educational Affairs : | | | | | | |
| Canter, Robert J. ² | 1- 3-72 | 6-30-72 | 9,663 | | 821 | 10,484 |
| House Office Building Commission: | | | | | | |
| Medoff, Mamie ² | 10-20-69 | 6-30-72 | 10,949 | | 931 | 11,880 |
| Joint Committee on Atomic Energy | | | | | | |
| Melloy, Thomas E., Jr | 1- 3-72 | 6-30-72 | 49,820 | | 835 | 10,655 |
| Sperry, Roger L | 1-18-71 | 8- 6-71 | 2,162 | | 184 | 2,346 |
| Total | | | \$578,344 | \$30,262 | \$49,060 | \$657,766 |

¹ These amounts, which are 85 percent of the salary costs, include the Government's estimated share for personnel benefits payable to the Civil Service Commission for the (1) Life Insurance Fund, (2) Retirement Fund, and (3) Health Benefits Program.

² This individual's assignment continued after June 30, 1972.

³ This cost was reimbursed by the committee or subcommittee concerned.

⁴ Beginning March 1, 1972, this cost was reimbursed by the committee or subcommittee concerned under section 235 of the Legislative Reorganization Act of 1970, as amended by Public Law 92-136.

Legal and Legislative Assistance

Committees and Members frequently call upon us for formal and informal legal advice and assistance, requesting comments on the contractual, fiscal, and administrative provisions of laws and legislative proposals; drafts of legislation; and views on the propriety of related administrative regulations.

Although many responses on legal questions are rendered informally, formal opinions are often addressed to Members and committee chairmen pursuant to specific request. For example, Senator J. William Fulbright asked what our current views were on the authority of the United States Information Agency (USIA) to enter into contracts for the production of information which is to be distributed exclusively or primarily within the United States. Our opinion, reaffirming a 1963 opinion of our Office; stated that we will not regard such contracts as valid unless USIA first obtains express statutory authority for such contracts.

At the request of Congressman Ken Hechler, we reviewed applicable provisions of the Federal Coal Mine Health and Safety Act of 1969 and concluded that the Secretary of the Interior acted without authority of law in establishing the Anthracite Advisory Committee under section 101 of the act and appointing the chairman and a majority of its members from persons who had an economic interest in coal mining.

Pursuant to requests of a committee and an individual Member, we reviewed the legal basis for the United States Postal Service to grant to all headquarters and regional office employees who retired between May 16 and June 15, 1971, a bonus equal to 6 months' pay. We decided that, in view of the broad authority of the Postmaster General under the Postal Reorganization Act, there was no legal objection to the retirement bonus.

Another committee raised a question concerning recovery of payments made under settlements of claims asserted by Government contractors. We advised the committee that final settlements by a contracting officer are binding on the Government, without a showing that the act of settlement was a gross mistake or that the settlement was obtained by fraud on the part of the contractor.

The Senate Foreign Relations Committee asked us if its letter of July 28, 1971, to the Secretary of Defense was sufficiently precise to constitute a proper request

under the Foreign Assistance Act for the Department's Five-Year Plan to begin the 35-day period specified in the statute for either the production of the requested information or the invocation of executive privilege, on penalty of a cutoff of the foreign assistance appropriation. Because of the long history of the Committee's efforts to gain access to the Plan, we believe the request was sufficiently clear to initiate the specified period on July 28.

The above examples illustrate the continued reliance on our legal analysis and advice. Further, as is illustrated by the opinion on committee access to executive branch planning documents, our views are sometimes sought on legal questions involving the basic structure of the Federal Government.

Testimony at Hearings

A very clear and direct form of our assistance to the Congress is the presentation of testimony at committee hearings. Representatives of our Office offer views on specific pending legislation, as well as presenting the results of our audits.

During the fiscal year 1972, GAO representatives testified before congressional committees on 38 occasions. As in past years, several of these appearances concerned matters relating to legislative branch operations, including GAO's access to executive branch records and the exercise of executive privilege, as previously discussed. In addition, two hearings were held by the Joint Committee on Congressional Operations during which we discussed the progress toward implementation of a standardized budgetary and fiscal data system which, as discussed on page 11, the Congress mandated in the Legislative Reorganization Act of 1970.

With respect to broad questions of executive branch administration and operations, we testified on the President's departmental reorganization plan, the proposal to establish a Federal Executive Service, and the potential for improved financial management and consolidation of Federal assistance programs.

We also discussed other matters which are of special public and congressional concern, such as U.S. exports and international trade, consumer safety, certain aspects of the narcotics problem, federally assisted urban housing, environmental protection, and highway safety.

A complete list of GAO appearances and the subject matter discussed follows.

**APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS
DURING FISCAL YEAR 1972**

| Committee | Date | Subject |
|--|----------------|--|
| Senate | | |
| Government Operations: Subcommittee on Legislation and Military Operations | July 7, 1971 | The President's Departmental Reorganization Program. |
| Judiciary : Subcommittee on Separation of Powers | July 28, 1971 | S. 1125, the exercise of executive privilege. |
| District of Columbia: Subcommittee on Fiscal Affairs | Aug. 3, 1971 | H.R. 8712, to extend to the District of Columbia authority under Public Law 89-473. |
| Public Works: Subcommittee on Buildings and Grounds | Sept. 28, 1971 | S. 2479 and S. 1736, to provide for financing the acquisition, construction, alteration, etc. of public buildings. |
| Labor and Public Welfare: Subcommittee on Handicapped Workers | Oct. 1, 1971 | S. 2506, to amend the Randolph-Sheppard Act for the Blind. |
| Commerce: Subcommittee on Foreign Commerce and Tourism | Jan. 25, 1972 | The Export Expansion Act of 1971. |
| Appropriations : Subcommittee on Legislative | Feb. 28, 1972 | GAO's budget estimates for fiscal year 1973. |
| Banking, Housing and Urban Affairs: Subcommittee on Production and Stabilization | Apr. 12, 1972 | S. 1901, to amend Section 719 of the Defense Production Act of 1950. |
| Government Operations: Subcommittee on Intergovernmental Relations | Apr. 17, 1972 | S. 3140, to improve the financial management of Federal assistance programs and to facilitate the consolidation of such programs. |
| Government Operations: Subcommittee on Executive Reorganization and Government Research | May 2, 1972 | S. 3419, to protect consumers against unreasonable risk of injury from hazardous products. |
| Small Business: Subcommittee on Monopoly | May 10, 1972 | Direct and indirect expenditures by Federal agencies for prescription drugs. |
| Veterans Affairs | May 18, 1972 | Veterans not completing correspondence courses. |
| Banking, Housing, and Urban Affairs: Subcommittee on Housing and Urban Affairs | June 20, 1972 | The Department of Labor's administration of the Davis-Bacon Act and a proposal to exempt certain types of construction from the requirements of the act. |
| House of Representatives | | |
| Foreign Affairs : Subcommittee on Europe | July 8, 1971 | H.R. 8093 and H.R. 6882, designed to prevent narcotic drugs from unlawfully entering the United States. |
| Government Operations: Subcommittee on Foreign Operations and Government Information | July 8, 1971 | Foreign currency exchange rates in Vietnam. |
| Post Office and Civil Service: Subcommittee on Manpower and Civil Service | July 8, 1971 | H.R. 9442, additional executive level positions for GAO. |
| Public Works: Subcommittee on Investigation and Oversight | July 14, 1971 | Policies and practices followed by the Postal Service in leasing and constructing facilities. |
| Government Operations: Subcommittee on Foreign Operations and Government Information | July 16, 1971 | Pacification and development programs in Vietnam. |
| Government Operations: Subcommittee on Legal and Monetary Affairs | July 22, 1971 | Administration of grants by the Law Enforcement Assistance Administration. |
| Judiciary: Subcommittee #4 | Sept. 21, 1971 | Limited use of Federal programs to commit narcotic addicts for treatment and rehabilitation. |

**APPEARANCES BY GENERAL ACCOUNTING OFFICE REPRESENTATIVES AT CONGRESSIONAL HEARINGS
DURING FISCAL YEAR 1972—Continued**

| Committee | Date | Subject |
|--|---------------|---|
| House of Representatives—Continued | | |
| Government Operations : Subcommittee on Legal and Monetary Affairs | Dec. 2, 1971 | Administration of single-family mortgage insurance programs by the Detroit area office, HUD. |
| Appropriations : Subcommittee on Legislative | Feb. 22, 1972 | GAO budget estimates for fiscal year 1973. |
| Post Office and Civil Service: Subcommittee on Manpower and Civil Service | Feb. 29, 1972 | H.R. 13150 , to provide that the Federal Government assume the risks of its fidelity losses . |
| Government Operations : Subcommittee on Government Activities | Mar. 14, 1972 | H.R. 12807 , procurement of architectural and engineering services. |
| Post Office and Civil Service: Subcommittee on Manpower and Civil Service | May 2, 1972 | H.R. 3807 , to establish and provide for the administration of the Federal Executive Service. |
| Government Operations : Subcommittee on Legal and Monetary Affairs | May 4, 1972 | Administration of single-family mortgage insurance programs by the Detroit area office, HUD. |
| Judiciary : Subcommittee #4 | May 8, 1972 | Narcotic addiction treatment and rehabilitation progress in Washington, D.C. |
| Armed Services: Special Subcommittee on Nonappropriated Funds in DOD | May 10, 1972 | GAO's review of the management of nonappropriated funds in DOD. |
| Armed Services: Special Subcommittee on Armed Services Investigating | May 10, 1972 | The relocation of the Army Intelligence School from Fort Holabird, Md. to Fort Huachuca, Ariz. |
| Government Operations : Subcommittee on Foreign Operations and Government Information | May 16, 1972 | Difficulty of GAO in obtaining information from the executive departments and agencies. |
| Merchant Marine and Fisheries: Subcommittee on Fisheries and Wildlife Conservation | May 24, 1972 | Improvements needed in Federal efforts to implement the National Environmental Policy Act of 1969. |
| Education and Labor: Special Subcommittee on Labor | June 1, 1972 | Department of Labor's administration of the Service Contract Act of 1965 and the effects of certain proposed amendments to the act. |
| Public Works: Subcommittee on Investigations and Oversight | June 21, 1972 | Problems in implementing the Highway Safety Improvement Program administered by the Federal Highway Administration, Department of Transportation. |
| Armed Services: Special Subcommittee on Nonappropriated Funds in DOD | June 26, 1972 | GAO's survey of the military commissaries in Europe. |
| Joint | | |
| Congressional Operations | Mar. 1, 1972 | Standard budgetary and fiscal classification and information system. |
| Economic : Subcommittee on Fiscal Policy | Mar. 20, 1972 | Administration of welfare programs. |
| Economic : Subcommittee on Priorities and Economy in Government | Mar. 27, 1972 | Claims by shipyard contractors seeking additional compensation from the Navy and the adequacy of cost controls at commercial shipyards. |
| Congressional Operations | Apr. 25, 1972 | Standard budgetary and fiscal data system. |

Assistance on House and Senate Financial and Administrative Operations

We maintain a professional staff at the Capitol to audit the various revolving funds, other activities of the House and Senate, and private organizations doing business on the Capitol grounds. Our audits of private organizations which conduct activities on Capitol Hill are carried out pursuant to section 451 of the Legislative Reorganization Act of 1970.

Our staff also assists with management, financial, and administrative problems when requested by officers of the Congress. These requests are received virtually every day and require close cooperation with these officials on their immediate problems and on the development of long-range improvements in their operations.

At the request of these officials, we audited and reported on the following activities:

- Senate Office Beauty Shop
- Senate Recording Studio Revolving Fund
- House Recording Studio Revolving Fund
- House Finance Office

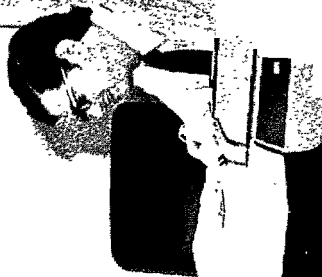
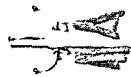
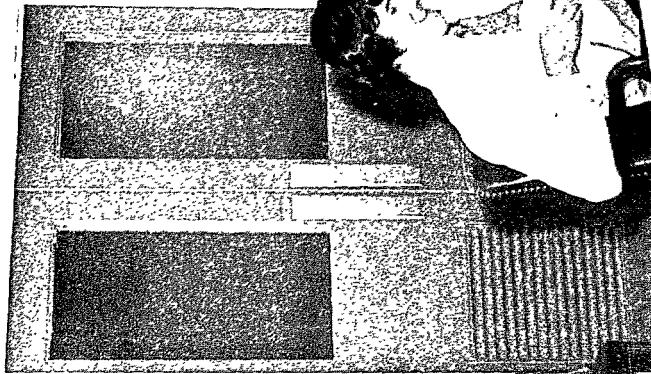
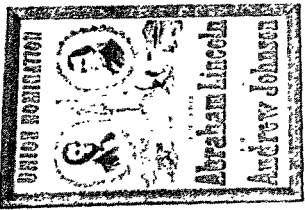
- House Stationery Revolving Fund
- House Office Equipment Service

We continued to assist the Committee on House Administration by making special studies of various operations of the House Restaurant which helped the Committee significantly reduce the operating deficit.

Recommendations for Legislation

One of the provisions of the Budget and Accounting Act of 1921, requires our Office to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures." In cases where an audit reveals that legislation is required or desirable, our reports will include an appropriate proposal for legislative consideration. In other cases, we may recommend that the affected agency sponsor legislation. Furthermore, we bring proposals for legislative action to the attention of the committees of jurisdiction.

Those reports issued during the past year containing legislative recommendations, together with certain recommendations carried forward from prior years, are discussed in Section IV of the Appendix.



CHAPTER THREE

SUPERVISION OF POLITICAL CAMPAIGN FINANCING AND REPORTING

Since our last annual report, the Congress enacted two laws which make unique and significant additions to the Comptroller General's authority and responsibility—the Presidential Election Campaign Fund Act (title VIII, Public Law 92-178, approved Dec. 10, 1971), and the Federal Election Campaign Act of 1971 [Public Law 92-225, approved Feb. 7, 1972).

The Presidential Election Campaign Fund Act

This act does not become effective until January 1, 1973, and does not require any substantial action on our part until 1976.

Briefly, this act provides for a checkoff procedure for Federal income tax returns whereby a taxpayer can designate \$1 of his tax payment (\$2 for joint returns) to go to a political party of his choice. Under this law the Comptroller General is required to:

Certify to the Secretary of the Treasury for payment to presidential and vice presidential candidates amounts to which they are entitled under the check-off procedure according to the formulas prescribed in the act.

News reporters examining campaign finance reports in the Office of Federal Elections Public Study Room.

Audit candidates' reports of campaign expenses.
Report to the Congress on payments to political parties and their campaign expenses.

Recover funds from candidates on the basis of determinations of ineligible receipts or campaign expenses.

In the Presidential Campaign Fund Act, the Congress has for the first time empowered the Comptroller General, through his own attorneys and counsel, to participate on behalf of the United States in litigation in Federal courts. Specifically, the act authorizes the Comptroller General:

To appear in and defend against any action brought against him on account of any certification, determination, or other action by him under that act.

To petition the courts of the United States for declaratory or injunctive relief concerning civil matters covered by that act.

On behalf of the United States, to appeal from and to petition the Supreme Court for certiorari to review judgments or decrees entered with respect to such actions.

The Federal Election Campaign Act of 1971

The Congress gave the Comptroller General responsibility for administering this act (which became effective on Apr. 7, 1972) as it relates to campaigns for the offices of President and Vice President. In addition, title I of the act requires the Comptroller General to promulgate regulations implementing the provisions governing all Federal candidates' spending for media advertising (with the exception of certain provisions under jurisdiction of the Federal Communications Commission).

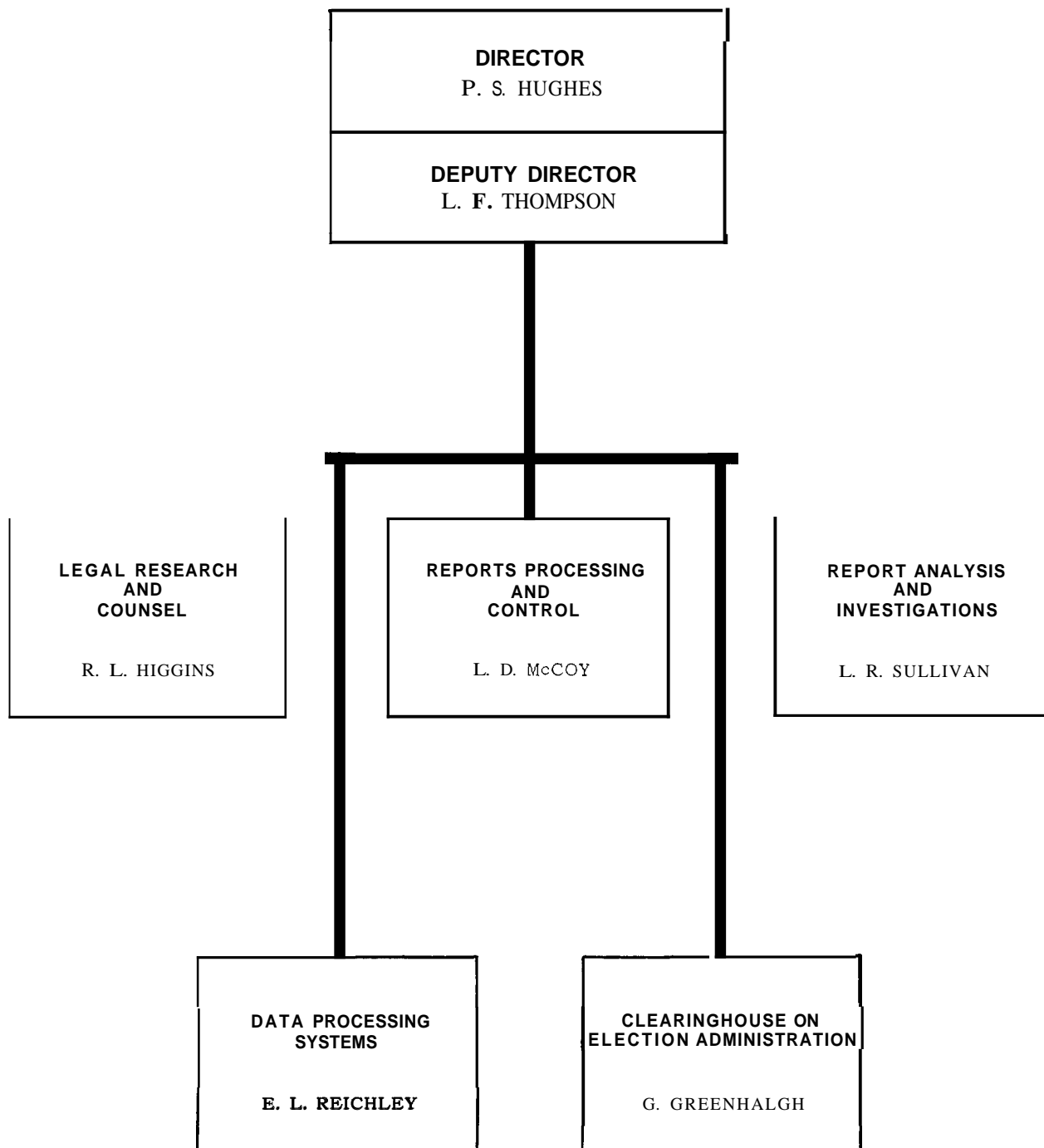
Title I of the act, known in its own right as the "Campaign Communications ~~Reform~~ Act":

Limits the amounts which candidates for Federal office may spend for using communications media—television, radio, newspapers, magazines, outdoor advertising, and certain telephone usage.

Controls the rates which broadcasting stations, newspapers, and magazines may charge Federal candidates.

Title III (Disclosure of Federal Campaign Funds) of the act requires Federal candidates and their supporting political committees to:

OFFICE OF FEDERAL ELECTIONS



JUNE 30, 1972

Keep detailed accounts of Contributions received and expenditures made.

Report to a designated supervisory officer at specified intervals (at least four times a year) complete accounts of all receipts and expenditures.

The act designates as supervisory officers:

The Clerk of the House of Representatives for House candidates.

The Secretary of the Senate for Senate candidates.

The Comptroller General for presidential and vice presidential candidates.

The duties of the supervisory officers are set out in section 308 of the act as follows:

Sec. 308. (a) It shall be the duty of the supervisory officer—

(1) to develop and furnish to the person required by the provisions of this Act prescribed forms for the making of the reports and statements required to be filed with him under this title;

(2) to prepare, publish, and furnish to the person required to file such reports and statements a manual setting forth recommended uniform methods of bookkeeping and reporting;

(3) to develop a filing, coding, and cross-indexing system consonant with the purposes of this title;

(4) to make the reports and statements filed with him available for public inspection and copying, commencing as soon as practicable but not later than the end of the second day following the day during which it was received, and to permit copying of any such report or statement by hand or by duplicating machine, as requested by any person, at the expense of such person: *Provided*, That any information copied from such reports and statements shall not be sold or utilized by any person for the purpose of soliciting contributions or for any commercial purpose;

(5) to preserve such reports and statements for a period of ten years from date of receipt, except that reports and statements relating solely to candidates for the House of Representatives shall be preserved for only five years from the date of receipt;

(6) to compile and maintain a current list of all statements or parts of statements pertaining to each candidate;

(7) to prepare and publish an annual report including compilations of (A) total reported contributions and expenditures for all candidates, political committees, and other persons during the year; (B) total amounts expended according to such categories as he shall determine and broken down into candidate, party, and nonparty expenditures on the National, State, and local levels; (C) total amounts expended for influencing nominations and elections stated separately; (D) total amounts contributed according to such categories of amounts as he shall determine and broken down into contributions on the national, State, and local levels for candidates and political committees; and (E) aggregate amounts contributed by any contributor shown to have contributed in excess of \$100;

(8) to prepare and publish from time to time special reports comparing the various totals and categories of contributions and expenditures made with respect to preceding elections;

(9) to prepare and publish such other reports as he may deem appropriate;

(10) to assure wide dissemination of statistics, summaries, and reports prepared under this title;

(11) to make from time to time audits and field investigations with respect to reports and statements filed under the provisions of this title, and with respect to alleged failures to file any report or statement required under the provisions of this title;

(12) to report apparent violations of law to the appropriate law enforcement authorities; and

(13) to prescribe suitable rules and regulations to carry out the provisions of this title.

(b) The supervisory officer shall encourage, and cooperate with, the election officials in the several States to develop procedures which will eliminate the necessity of multiple filings by permitting the filing of copies of Federal reports to satisfy the State requirements.

During the consideration of the legislation, the Comptroller General recommended establishment of an independent, bipartisan commission to administer the act. Senate bill 382, which became Public Law 92-225, as passed by the Senate, contained a provision for an independent Federal Elections Commission. The House-passed bill, however, contained the provision for three supervisory officers and it was this version that prevailed in conference.

Office of Federal Elections

Because of the unique character of the duties and responsibilities assigned to the Comptroller General by these two statutes, a new office in GAO was established—the Office of Federal Elections—to perform these new functions.

The Comptroller General appointed as Director of that office Phillip S. Hughes, former Deputy Director of the Bureau of the Budget and widely known as an outstanding career Government official. L. Fred Thompson, a long-time career attorney in GAO, was named Deputy Director.

During the planning and preparation for assuming the responsibilities under the new law, we obtained the services of Dr. Herbert E. Alexander as a consultant. Dr. Alexander is Executive Director of the Citizens Research Foundation and has authored several books on political campaign financing. His advice and counsel during this period were invaluable.

The Office of Federal Elections and the planning task force which preceded it worked closely with the

Clerk of the House and the Secretary of the Senate and their staffs to formulate regulations and reporting forms which would be as nearly identical as possible. The simplification of the reporting requirements which resulted from such uniformity is a credit to the diligence of the respective staffs and should contribute significantly to the success of the act in attaining its goals.

The regulations and reporting forms were issued prior to April 7, 1972. The Office of Federal Elections made an initial distribution of about 8,000 information packets containing copies of the regulations, the forms, the statute, a question and answer booklet, and return envelopes. These were distributed principally to political committees' mailing lists, obtained from the major national committees, and to known presidential and vice presidential candidates and committees. Additional mailings were made from time to time designed to reach as many committees likely to be affected by the statute as possible and, thereby, to encourage wide compliance.

As of June 30, 1972, the Office of Federal Elections had 12 staff members. Certain functions relating to processing and filing reports coming in have been performed under contract. The workload peaks around the specified filing dates, and the requirement of the act that the reports be made available to the public within 48 hours after receipt makes it impossible to regularly staff this function with Government employees. Hence, a contractor furnishes a temporary force when needed.

Reports, Review, and Analysis

At the same time a report is filed after processing and made available to the public or press upon request, a copy is forwarded to the review staff for analysis as to completeness and compliance with the requirements of the act.

The quality of the reports varies. Large national committees, as well as some labor and business committees, have computerized their accounts, employ professional accountants, and are capable of rather sophisticated reporting. Other committees manned by volunteers do not always have trained accountants or bookkeepers available. The newness of the act and its detailed reporting requirements also affect the quality of the reports, and all these have to be considered in administering the act.

The staff continually analyzes committee and candidate reports. When errors or shortcomings are detected, the treasurer of the committee or the candidate

is informed at once to insure rapid correction or completion. Besides achieving quicker and more complete compliance with the requirements of the act, this review provides the knowledge and experience necessary for later audits of the political committees' and candidates' books and records.

Occasionally these preliminary reviews and analyses reveal indications of serious violations of the statute which necessitate referral to the Department of Justice. For example, one such review revealed an unusual series of campaign contributions, each in the amount of \$6,000, and which, although bearing different names of contributors, showed the same or similar addresses in several instances. Upon inquiry to the committee, it was quickly ascertained that the contributions, totaling \$48,000, emanated from the same source. Since the Federal Election Campaign Act specifically prohibits contributions in the name of another person, the case was referred to the Attorney General for possible prosecution. The committee amended its report to reflect the true identity of the donor.

Audits and Examinations

Although at the end of the fiscal year the act had been in effect for less than 3 months, plans were underway in the Office of Federal Elections to begin a comprehensive program of field audits and examinations of reporting committees' and candidates' books and records. One of the goals of this program will be to educate the treasurers of the committees and candidates in the requirements of the act. The program will be extended as long as necessary to audit a significant portion of the committees which will have submitted reports to the Office of Federal Elections on their activities during the 1972 presidential election year.

Besides identifying possible violations, the audit and examination program is expected to provide the basic knowledge required for formulating new and more simplified instructions for use before and during the 1976 campaigns. This experience will probably produce recommendations which we may wish to make to the Congress for clarifying amendments to the act.

Automatic Data Processing Requirements

It is evident from the requirements of subsections 308(a) (6), (7), (8), and (9) of the act that the vast array of detailed data required to be reported can

be handled effectively only by the use of automatic data processing procedures. It was considered infeasible to attempt to staff with the necessary technical personnel and to purchase or lease the equipment which would be required to process the data in the General Accounting Office.

Instead, a contract was negotiated with Computing and Software, Inc., of Alexandria, Va., to design the system necessary for retrieving appropriate data and for publishing the required reports. The reports will be produced through contractual arrangements with outside sources or through Government-owned computers in other agencies.

National Clearinghouse on Election Administration

In addition to the duties prescribed generally for all supervisory officers in section 308 (a) and (b), the act provides in section 308(c) that:

(c) It shall be the duty of the comptroller General to serve as a national clearinghouse for information in respect to the administration of elections. In carrying out his duties under this subsection, the Comptroller General shall enter into contracts for the purpose of conducting independent studies of the administration of elections. Such studies shall include but shall not be limited to, studies of—

- (1) the method of selection of, and the type of duties assigned to, officials and personnel working on boards of elections;
- (2) practices relating to the registration of voters; and
- (3) voting and counting methods.

Studies made under this subsection shall be published by the Comptroller General and copies thereof shall be made available to the general public upon the payment of the cost thereof. Nothing in this subsection shall be construed to authorize the Comptroller General to require the inclusion of any comment or recommendation of the Comptroller General in any such study.

It became apparent to us at the outset, as it was to the Congress when it adopted this provision, that election administration has been given relatively little formal study and that there is a dearth of literature on this subject. Our first effort was to inventory and assemble copies of available material.

Contract With the American University

The initial contract study undertaken pursuant to section 308(c) is being conducted by The American University Institute of Election Administration under the direction of Dr. Richard Smolka in accordance with a contract with the Office of Federal Elections.

The purpose of the study is to review the operation of the election systems in seven different voting jurisdictions and to identify reasons for successes or failures. The contractor is required to develop from these reviews models of election administration systems which it believes could effectively serve different communities having different problems in administering elections.

The jurisdictions being reviewed include some which have had highly publicized malfunctions in the voting processes in the recent past and others in which the election processes are reputed to have operated smoothly and efficiently. The seven jurisdictions are:

- Los Angeles County, Calif.
- Alameda County, Calif.
- Multnomah County, Oreg.
- Cuyahoga County, Ohio
- Hamilton County, Ohio
- Summit County, Ohio
- Detroit, Mich.

Since the end of the fiscal year, an outside panel has been assembled to advise the Office of Federal Elections on the selection of new areas to study and the conduct of those studies. The informal panel is composed of:

Dr. Herbert E. Alexander, Executive Director of the Citizens Research Foundation and author of several books on political campaign financing.

Mr. Bryce Harlow, former member of the White House staff under Presidents Eisenhower and Nixon.

Mr. Richard Scammon of the Elections Research Center of the Governmental Affairs Institute in Washington and coauthor of the book, "The Real Majority."

A number of specific studies will be undertaken during the next fiscal year.

The seal of the United States General Accounting Office (GAO) is a circular emblem. It features an eagle with wings spread, perched on a shield. The shield is divided into sections, with a cross in the center. The words "UNITED STATES" are written in a circle around the top, and "GENERAL ACCOUNTING OFFICE" is written around the bottom.

Paul G. Dembling, general counsel:
Spoke to the student body of
Duke University Law School on
"The Role of the General Account-
ing Office in the Federal Govern-
ment," Durham, N.C., March 3.

H.R. 13
Barelay, F. Henry,
General Counsel,
John W. Moore,
Counsel.

STATEMENT OF PAUL G. NEWBING, GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE
JOHN W. MOORE, A
HIGGINS, ATTORNEY AT
SEL
ROBERT H. RUMIZEN
HEARINGS
S. 2506
MATTHEW J. NEVINS

MELVIN E. MILLER

GENERAL GOVERNMENT MATTERS

Public Law 92-225
92nd Congress, S. 382
February 7, 1972

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Federal Election Campaign Act of 1971.



PATL G. DEMBLING, Esq.,
General Counsel, General Accounting Office,
Washington, D.C.

Washington, D.C.

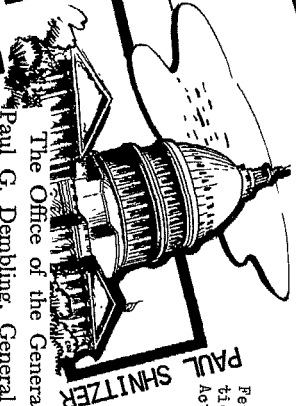
DEAR MR. DEMBLING: The National Aeronautics and Space Administration has been requested by the Chapel of the Astronauts to provide a tract for the corporation, the National Aeronautics and Space Administration, Inc.

Procurement and Distribution

F. K. K.

LEGAL SERVICES
Defense Procurement
Government Contracting
Practices

LEGAL SERVICES
LEGISLATION



The Office of the General Counsel is headed by Paul G. Dembling, General Counsel. Assisting Mr. Dembling in directing the work of this office are the Deputy General Counsel, Milton J. Socolar, and Associate General Counsels F. Henry Barclay, Jr.

JOHN J. HIGGINS

Legal Reference Services

Legal Reference Services, through its Law Library and its Index-Digest, Index and Files, and Legislative Digest Sections, provides the support requisite to carrying out legal and other activities of the General Accounting Office.



Public Law 92-70
92nd Congress, H. R. 8432
August 9, 1971

Sanjiv

JOHN W. MOORE

LOUIS PALMER

PROCUREMENT

PROCUREMENT LAW

COLAR
TITLE 4—ACCOUNTS
RULES AND REGULATIONS

Chapter I—General Accounting Office

SUBCHAPTER A—GENERAL PROCEDURES

PROCEDURES AND STANDARDS

For over 46 years the General Accounting Office has provided those contracting with the Government with an objective, independent and impartial forum for the handling of bid protests. The Congress, the courts, the public, and contracting agencies have come to rely upon the Comptroller General's bid protest decisions as a uniform body of administrative law applicable to the procurement process.

§ 20.1 Filing of protest.

(a) An interested party wishing to protest the proposed award of a contract, or the award of a contract, by or for an agency of the Federal Government whose accounts are subject to settlement by the General Accounting Office may do so by a telegram or letter to the General Counsel, General Accounting Office, Washington, D.C. 20548.

82d Congress

2d Session

To authorize emergency loan guarantees to major business enterprises.

A STUDY

JOINT COMMITTEE PRINT

PERSONNEL

JOINT COMMITTEE PRINT
A STUDY
MEASURING AND ENHANCING
PRODUCTIVITY IN THE
FEDERAL SECTOR
KOWSKI
ATION

SHULER
Crown
Davis
Harris
Reynolds
LOY

Public Law 92-342
92nd Congress, H. R. 1161
July 1971



Legislative
Branch
Appropriation
Act, 1973.

EDWIN W. CIMOKOWSKI
TRANSPORTATION

92nd Congress, H. R. 13955
July 10, 1972

The Comptroller General's letter (B-173123) also transmitted for the information and use of the committee a memorandum entitled "General Accounting Office Observations and Data Concerning Narcotics."

F. HENRY BARCLAY, JR.

CHAPTER FOUR

LEGAL SERVICES

The Office of the General Counsel is under the direction of Paul G. Dembling, General Counsel. Assisting Mr. Dembling in supervising the work of this office are the Deputy General Counsel, Milton J. Socolar; the associate general counsels; and the assistant general counsels. An organization chart of the office is presented on page 34.

The legal work of the General Accounting Office stems from article 1, section 9, clause 7, of the Constitution of the United States which provides that "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by law; * % *." Thus, under the Constitution control over the public purse was placed in the hands of the Congress.

A major function of the Office of the General Counsel is to provide legal advice to and on behalf of the Comptroller General to assist him in carrying out his statutory responsibility for determining the propriety of public expenditures by the executive branch.

In addition to matters covering the legality of Government payments, the Office of the General Counsel prepares reports to the Congress on proposed legislation, often working in close collaboration with committee staff members, and reviews all our audit reports to insure that legal implications have been appropriately considered.

It is difficult to convey a complete understanding of the broad scope of the legal assistance furnished in the form of formal decisions, comments on proposed legislation, office opinions to divisions, audit report reviews, and informal advice furnished daily by our legal staff.

To appreciate the extent of our legal activities, it is necessary to recognize the wide range and growing complexity of our Nation's social, political, economic, and military needs and to recognize that the General Accounting Office is responsible for determining the legality of a major portion of Government expenditures.

During the fiscal year the Office of the General Counsel was realigned on a functional basis under four associate general counsels, with each in charge of one of these areas: Procurement Law, General Government Matters, Personnel Law (subdivided into civilian and military), and Transportation.

Within these broad areas, our work includes over 400 decisions a month involving all fields of substantive law and requiring expertise in statutory construction; procedure, evidence, and contract interpretation. Although it is not possible to review all the major legal assistance provided, the following descriptions give an insight into the nature and extent of the assistance rendered,

Procurement Law

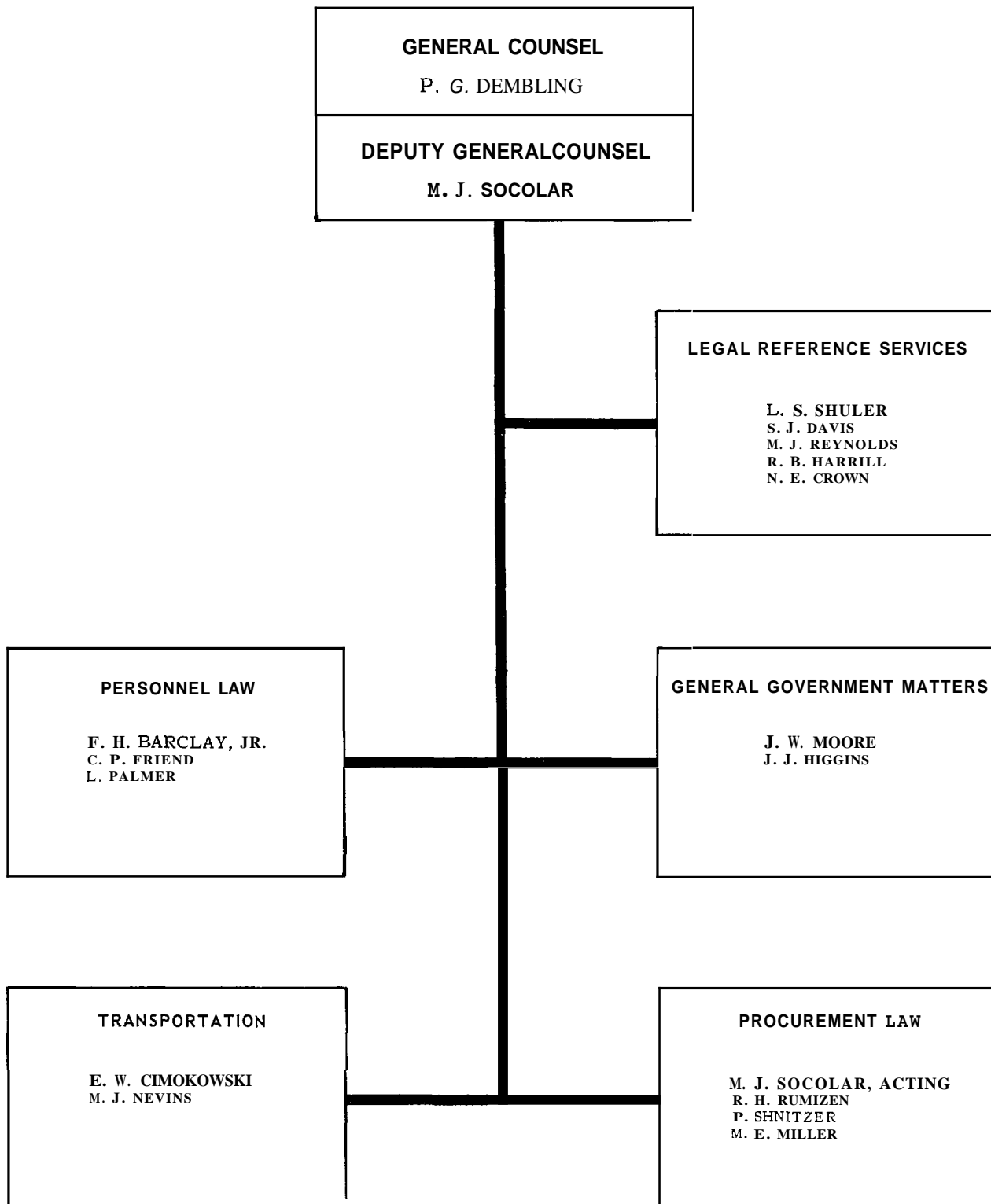
Contract Awards

Government contracts may be awarded only in the manner and for the purposes authorized by law and implementing regulations. Their general objective is to satisfy the Government's needs under fair and equitable procedures. GAO has been increasingly recognized as a proper forum for resolving questions concerning the propriety of proposed or actual contract awards.

In many instances the heads of agencies or contracting officers submit questionable proposed actions to us for an advance decision. However, most cases of this kind come to us as a result of bid protests from interested parties who contend that the procurement action taken or contemplated by the contracting officer does not comport with statute or regulation. Continuing a long-term trend, the bid protest workload has grown again this fiscal year, not only in the number of protests received but also in the complexity of the issues presented and resolved.

Our decisions in these cases generally control the protested procurement. More significantly, the decision becomes a guide both to the contracting activities and to the prospective contractors, extending its significance far beyond the immediate case. Any given provi-

OFFICE OF THE GENERAL COUNSEL



sion of a procurement regulation dealing with contract award can frequently be traced to one or more of our decisions. A statistical summary for the fiscal year appears on page 36.

Judicial Recognition of Jurisdiction

The Court of Appeals for the District of Columbia this year has given concrete recognition to the role we play in bid protests and to our special competence in the field. *Schoonmaker v. Resor*, 445 F. 2d 726, decided June 23, 1971, concerned a situation in which we found ambiguous an invitation for bids which the contracting agency had regarded as proper. Consistent with our position, the agency **took** action to reject all bids and readvertise. The court noted that our opinion differed from the contracting agency's initial position. However, it held that, whether the contracting agency was convinced by the reasoning of our decision or acceded to it to avoid conflict, the agency's action should not be set aside unless GAO's decision was arbitrary or capricious. The court also noted that it may be in the public interest for the contracting agency to accede to our position since it avoids "insufferable certainties" all parties face in a conflict between us and the procuring agency.

The same court on October 14, 1971, rendered an opinion in *Steinthal v. Seamans*, 455 F. 2d 1289, indicating its view that courts should interfere in bid protest cases only if statutory boundaries are transgressed or where the procurement agency action has no rational basis. Although the court indicated that it was not called upon to make a formal determination on the Comptroller General's authority to issue bid protest decisions, it expressed concern that the District Court in disposing of the case had not even considered our decisions upholding the contracting agency's position in the protest. In this connection the Court of Appeals stated :

Certainly we must acknowledge that the office headed by the Comptroller General provides unique experience in the area of government procurement and a tradition of care and objectivity * * *.

The court noted the importance in Government procurement of our position and continued:

A court's reluctance to interfere with the executive procurement process should be especially strong where, as here, the General Accounting Office has made a determination upholding the procurement officials on the merits.

The District Court was overruled in that case on the basis, following *Schoonmaker, supra*, that our decision in the matter, on which the contracting agency relied, was not arbitrary or capricious.

In a companion case decided on the same day, *Wheelahrator v. Chafee*, 455 F. 2d 1306, the Court of Appeals, noting that it was not called upon to decide the extent of our authority in the bid protest area, pointed out that the District Court had issued a preliminary injunction preventing bid opening or contract award on the solicitation while we were still considering the protest. The court indicated that the use of its injunctive authority to prevent irreparable injury from imminent bid opening until an agency "with special competence" (GAO) had ruled on the merits could provide a "felicitous blending of remedies and mutual reinforcement of forums."

Following these cases, the Court of Appeals for the District of Columbia in *General Electric Co. v. Seamans*, Nos. 72-1243 and 72-1246, on June 16, 1972, ordered that the matter be held in abeyance until GAO had decided the case. The court also indicated that :

The reluctance of any party to these proceedings to cooperate in the expeditious disposition of the protest proceedings before the GAO may result in a change in this order.

Bid Protest Procedures

The increase in reliance by parties within and outside the Government on our decisions on bid protests has renewed emphasis on procedural safeguards to insure that the bid protests are fairly considered on their merits with adequate opportunity for each party to present its position and to refute opposing positions. Decisions in this area must be issued promptly to minimize interference with contracting agency missions and to provide effective relief.

For these reasons we issued new interim procedures governing bid protests submitted to us. These were published in the Federal Register (Vol. 36, No. 247, Dec. 23, 1971). In essence the new procedures differ from the previous rules in that they impose strict time limits on all parties, limit the circumstances in which award can be made pending our decision on a protest, provide for the automatic dissemination of information to all parties concerned, and reduce the opportunity for *ex parte* communications. However, the preamble recognizes that we cannot impose time limits on the executive branch or regulate the withholding of award. We

BID PROTESTS—FISCAL YEAR 1972**Disposition of Cases Handled**

| | |
|---------------------------------|---------------|
| Protests sustained | 52 |
| Protests withdrawn | 299 |
| Protests denied | 706 |
| Miscellaneous actions | 170 |
| Total | 11,227 |

Formal Decisions Rendered

| | |
|---|------------|
| Agriculture | 17 |
| Air Force | 102 |
| Army | 185 |
| Atomic Energy Commission | 6 |
| Commerce | 9 |
| Defense Supply Agency | 69 |
| Department of Defense | 5 |
| District of Columbia Government | 6 |
| Environmental Protection Agency | 5 |
| Federal Communications Commission | 1 |
| General Services Administration | 65 |
| Government Printing Office | 8 |
| Health, Education, and Welfare | 10 |
| Housing and Urban Development | 8 |
| Interior | 23 |
| Justice | 4 |
| Labor | 3 |
| Marine Corps | 3 |
| National Aeronautics and Space Administration | 14 |
| National Labor Relations Board | 4 |
| Navy | 165 |
| Selective Service System | 1 |
| Small Business Administration | 5 |
| State | 6 |
| Tennessee Valley Authority | 1 |
| Transportation | 15 |
| Treasury | 3 |
| U.S. Information Agency | 2 |
| U.S. Postal Service | 1 |
| Veterans Administration | 12 |
| Total | 758 |

¹ Corrective action was recommended in 99 cases.

recognize that the procedure will operate as intended only if the contracting agencies take the actions required in the consideration of any bid protest.

Contract Claims

It has been our view that we had authority to review board of contract appeal decisions, pursuant to the standards of the Wunderlich Act, 41 U.S.C. 321, 322. However, the Supreme Court in *S&E Contractors, Inc. v. United States*, No. 70-88, decided April 24, 1972, held that an agency's decision was final and

not subject to review by GAO or any other administrative agency, unless fraud or bad faith was involved.

Significant Cases

The Court of Appeals for the District of Columbia has designated GAO as an agency of special competence upon which the courts should generally rely for advice in deciding the merits of bid protest cases. However, where a protest is decided by a court of competent jurisdiction, the court's determination is binding on us. In a case in which a protester asked for permanent injunctive relief, dismissal by the court of the complaint with prejudice was in effect a final adjudication on the merits precluding our further consideration of the protest. (51 Comp. Gen. 37)

In the past year we considered a protest on a competitively negotiated procurement by the National Aeronautics and Space Administration for the space shuttle main engine. The contract, to be awarded on a cost-plus-award-fee basis, was estimated to exceed \$850 million over a 7-year period. We held that, although written and oral discussions conducted by the procuring agency with offerors in the competitive range comported with the statutory standards of 10 U.S.C. 2304(g), the NASA Procurement Directive, which prohibited discussions with the offeror of deficiencies in his proposal in cost reimbursement and research and development contracts, was too broad. We recognized that it would be unfair to disclose an offeror's innovative or ingenious solution to a competitor or to assist an offeror in making his inadequate proposal acceptable by successive discussions in which weaknesses due to his own lack of diligence, competence, or inventiveness were pointed out. However, we noted that deficiencies should be discussed when this can be done without being unfair to other offerors, such as when the offeror has reasonably placed emphasis on some aspect different from that intended in the solicitation or when a proposed approach apparently needs to be substantiated. (51 Comp. Gen. 621)

Invitations for bids on supply procurements frequently call for prices on quantities which the Government has the option to accept after the basic contract has been awarded. Problems have arisen in connection with bids which fail to respond to a request for prices on an option quantity. In a significant case we held that failure to include a bid on an option quantity makes a bid nonresponsive when the solicitation specifies that option prices may not exceed basic bid prices,

or establishes some similar standard for the option prices or if the Government intends to exercise the option, in whole or in part, at the time of award of the basic quantity. However, failure to include a bid price on an option quantity is not prejudicial to consideration of the bid if the solicitation does not establish a ceiling on the option prices and option prices are not to be included in the bid evaluation. (51 Comp. Gen. 528)

Section 234 of the Legislative Reorganization Act of 1970 requires that our recommendations to executive agencies for corrective actions be reported to the Congress and that the agencies involved similarly report actions taken as a result of our recommendations. In the bid protest area, a number of recommendations that improperly awarded contracts be terminated for conveniences have been made to executive agencies and reported to the Congress.

An example is a case involving the Department of the Army's procurement of telescopes to be constructed in accordance with a technical data package which was included in the invitation for bids. Because bidders were bound to perform in accordance with the specifications, as represented by microfilm drawings contained in the technical data package and by other invitation provisions, the decision held that a low bidder who did not acknowledge an amendment adding omitted drawing numbers and correcting erroneous drawing numbers contained in the package was not a nonresponsive bidder. It was therefore recommended that the contract awarded to the second low bidder be terminated for the convenience of the Government and that award be made to the low bidder if otherwise proper. The matter was reported to the Congress and the Army terminated the original contract. (51 Comp. Gen. 293)

In the area of negotiated procurement, a recent case held that a request for proposals (RFP) for a ~~firm~~ fixed-price contract adequately advised offerors of the work to be performed under the proposed contract even though no estimate of the scope of work contemplated in a particular area required by the RFP ~~was~~ provided. The procurement involved upgrading a worldwide communications network and, among other things, removing outside cables and other equipment, the extent of which varied from installation to installation. Because the worldwide extent of the communications network precluded preoffer site inspection, offerors had no way of determining the extent of work involved for this RFP category and were forced

to submit firm fixed-price offers without knowing what ~~this~~ undescribed work would cost. Our decision held that a contract placing maximum risk on the contractor, as was the case in this procurement, does not violate procurement statutes so long as all offerors are treated equally because the flexibility inherent in negotiation procedures is "amenable to situations not lending themselves to a complete detailing of full specifications." Thus, the six offerors in this case by their response to the RFP were merely undertaking a reasonable business risk in agreeing to perform the undefined work for binding fixed prices. (B-173534, June 22, 1972)

On occasion, GAO's consideration of a bid protest case coincides with a broader audit review. A recent decision involved the General Services Administration's implementation of an appropriation act which prohibits constructing private office buildings solely on condition they will be leased by the Government. The decision concluded that, although the builder in the protest case should not be penalized for relying on the Government's interpretation of his compliance with criteria devised by GSA, the problem of compliance with the appropriation act prohibition was a recurring one which should be reported to the Congress for possible legislative action. The decision was rendered on the bid protest case in response to an order of the U.S. District Court for the Eastern District of Pennsylvania that GAO consider the issues involved. The audit which was being conducted consisted of an overall review of GSA's practices in this area. After analyzing the problem in the bid protest and the findings disclosed in the audit, GAO recommended corrective legislation. (See Appendix, Section I, Item 153.)

General Government Matters

Many questions arise as to the availability and proper application of appropriated funds to Government programs and whether programs, activities, and public expenditures are consistent with the intent of the Congress. Such questions concern the whole of governmental activity and are difficult to classify in meaningful categories. Periodically, past decisions are reviewed to determine whether their rationale remains valid in view of changed conditions in the law or administrative practice.

Pursuant to a request of the Department of Defense we held, contrary to an earlier view, that the Department could legally provide for contractual

agreement to pay interest on claims that were not promptly settled by the Government. (51 Comp. Gen. 251)

On the question of what constitutes a necessary expense of an agency's operations we decided after reviewing earlier positions that funds appropriated to the Bureau of Public Debt would be available for the cost of incentive music upon a determination of justification by the Commissioner based on factors such as the improvement of employee morale, increased employee productivity, and resulting savings to the Government. (51 Comp. Gen. 598)

Several other decisions may be cited to demonstrate the wide range of the questions considered under this heading.

Concerning appropriate cost-sharing arrangements for relocating persons displaced by federally assisted projects, we held that the assistance provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 were to apply to persons displaced after the effective date of the act but that the cost-sharing requirements were not intended to alter existing contractual rights based on agreements allowing for full Federal funding of displacement expenses. (51 Comp. Gen. 267)

A recurring question is whether current authority is sufficient to undertake a given program without further congressional action. One such case involved a proposal by the Military Sealift Command, Department of the Navy, for financing from revolving funds the construction and charter-hire to the Command of nine 25,000-ton tankers, without specific congressional approval. Questions that arose concerned (1) whether the capital asset nature of the transaction required specific congressional approval and appropriation and (2) the consequence of a shortfall in funds in the event of certain contingencies.

The decision held that, although the Command assumed all the liabilities attached to ownership and, in effect, equitably owned them, title to all or any portion of any of the nine vessels was never to pass to the Government and therefore we could not say the arrangement would constitute purchase of an asset for which funds are required to be authorized and appropriated by the Congress.

As to a shortfall in funds, the decision pointed out that we have never recognized any authority of a Federal agency to incur obligations against receipts anticipated beyond the current year in the absence of specific authority of law. Nevertheless, in view of various statutory authorities relating to the revolving fund

involved and in light of Department of Defense assurances that the obligation availability of the fund in fiscal year 1972 was more than sufficient to cover all possible obligations for total charges under the agreements, G.40 could not question the legality of the proposed arrangement. (51 Comp. Gen. 598)

In a decision on funding assistance furnished under the Disaster Relief Act of 1970, we held that the practice of the Office of Emergency Preparedness (OEP) of calling on Federal agencies to provide relief assistance under that act from their own funds pending reimbursement is within the scope of the act. The ruling was based on a determination that Congress was aware of the practice and on the President's having delegated his authority under the act to direct Federal agencies to provide assistance without a prior advance of funds from OEP. (51 Comp. Gen. 245)

Personnel Law

Civilian Personnel

The civilian personnel structure of the Federal Government is founded on a complex array of statutes, regulations, and instructions designed to insure equitable treatment to all employees. Rights and authorities are spelled out to cover such matters as pay, including severance, overtime, holiday, Sunday, and night differential; reimbursement of travel, transportation, and relocation expenses; vacation and sick leave; removals from service; and other personnel management subjects.

The General Accounting Office affords officials of the Government an avenue of assurance that personnel payments authorized by them agree with existing requirements and provides assistance to the Department of Justice when any such payments become involved in litigation. The Office also provides for each Government employee an inexpensive forum for deciding his entitlement to claimed pay or allowances. Inquiries of employees, unions, and others are answered to the extent possible, even though no specific decisions on entitlement to pay or allowances may be rendered.

Subsequent to the imposition of the President's wage and price freeze on August 15, 1971, several decisions were rendered concerning Federal employee pay entitlement. In one decision which affected many employees, it was held that the Economic Stabilization Act Amendments of 1971 permitted (1) Federal employees to receive compensation retroactively for within-grade

step increases which became due during the period of the freeze and (2) Federal wage employees to receive retroactive wage adjustments resulting from wage surveys ordered before the freeze was announced on August 15, 1971. (B-173976, Feb. 23, 1972)

In a case involving the Postal Rate Commission's authority to fix the salaries of its employees without regard to the compensation schedules adopted by the Postal Service, we pointed out that the Commission and not our Office was vested with authority to make the final determination in the matter. However, we expressed the view that the provisions of the postal laws involved required the Commission to follow the appropriate rates established by the Postal Service. (B-174800, Jan. 6, 1972)

In a case involving the right of an employee to overtime compensation while traveling on official business outside his scheduled hours of duty, we noted that, although the Congress has provided that official travel should be required during regular duty hours to the maximum extent practicable, the failure of an agency to do so does not necessarily result in entitlement to overtime compensation. (B-172671, May 11, 1972)

Another decision involved the salary of an employee who had been designated as acting general counsel of the National Labor Relations Board under a statute which authorized such designation by the President with certain limitations. We held that the salary of the position of general counsel could not be paid to the employee designated to perform the duties of that position in an acting capacity and that he was entitled only to the salary of his permanent position. (B-150847, Aug. 26, 1971)

Military Personnel

The decisions in the military personnel area involve many different fields of law and interpretations of statutes, both old and recently enacted, as well as the implementing regulations.

The pay and allowances of members of the U.S. Armed Forces are administered under a composite of detailed and complex statutes, regulations, and instructions. (The laws relating to the pay and allowances of the armed forces are applicable, generally, to the U.S. Coast Guard, the commissioned officers of the Public Health Service, and the commissioned officers of the National Oceanic and Atmospheric Administration.)

Our decisions in the uniformed services personnel area are relied upon by the Department of Defense and

military services, as well as the other agencies making up the uniformed services, in formulating the regulations and instructions to implement the statutory entitlements and authorities of the Congress and in making payments from appropriated funds.

Decisions are rendered on questions concerning pay and allowances for active and inactive duty personnel, retired pay, and travel and transportation allowances for members and their dependents and involve many related questions concerning marriage and divorce under various domestic and foreign laws.

In the active duty pay and allowances area, one case (B-174935, May 18, 1972) involved an Army officer whose wife obtained a Mexican divorce while they were residing in New York. He later remarried in Virginia while he was residing in Maryland. We held that he was not entitled to a quarters allowance for his present wife because, in the absence of a judicial determination by a U.S. court of the validity of the Mexican divorce, it was doubtful that either Maryland or Virginia would recognize the divorce as valid.

Also we held that when a husband and wife are both in the armed services and he is receiving a quarters allowance as a member with a dependent child by a former marriage, his present wife is not entitled to an increased quarters allowance for their child. (B-174632, Jan. 18, 1972)

A decision was rendered (51 Comp. Gen. 116) holding that a member of the armed services is not entitled to a family separation allowance for his wife, his only dependent, if she is also a member of the service. Also we held (51 Comp. Gen. 97) that the requirement, for family separation allowance purposes, of maintaining a residence for primary dependents was eliminated by Public Law 91-529.

In the retirement and retired pay area, decisions were rendered on technical and complicated questions concerning the recomputation of the retired pay of members of the armed services who had been retired for a number of years, then recalled to active duty and subsequently released from active duty. (51 Comp. Gen. 137 and B-172303, July 27, 1971)

Also we held that a retired regular commissioned officer of the Public Health Service who is employed by the Canadian Government is precluded, by article I, section 9, clause 8, of the Constitution of the United States and Executive Order No. 5221, November 11, 1929, from receiving retired pay while so employed. (B-175166, June 1, 1972)

In decision B-174007, June 30, 1972, we held that an

Army member who was erroneously denied shipment of his automobile overseas by the Government and who shipped the vehicle by commercial vessel was entitled to reimbursement in the amount that the Military Sealift Command would have charged the Army if it had arranged the shipment.

Transportation

Our attorneys prepare many decisions which constitute precedents for the certifying and disbursing officers of the Government, often involving highly technical and complex aspects of the law as it applies to the transportation of persons and property. The work requires a thorough knowledge of contract law and appropriations, statutes, and regulations issued thereunder; the interpretation of tariffs and rate tenders which contain the bases of charges for air, motor, rail, and ocean services; a familiarity with decisions of the Interstate Commerce Commission, the Civil Aeronautics Board, and the Federal Maritime Commission; and frequent preparation of detailed pleadings and briefs for use in proceedings before such regulatory agencies and the courts.

As in past years attorneys assigned to transportation cases prepared briefs, pleadings, and other court papers for use by the Department of Justice in numerous suits filed at our request in U.S. District Courts and referred by the courts to the Interstate Commerce Commission for determination. Most of the suits resulted from the motor carriers' refusal to refund overpayments arising from the application of rates considered unjust and unreasonable under precedent rulings of ICC and were referred by the courts to the Commission which has primary jurisdiction over the reasonableness of filed motor carrier rates.

In one of those cases, *United States v. Consolidated Freightways Corp.* (340 I.C.C. 208), ICC, in ruling in favor of the United States, applied to the adjudication of rates for motor carriage the principle that joint rates higher than the aggregate of intermediate rates are *prima facie* unreasonable.

In a proceeding referred by our attorneys to the Department of Justice for action before the Federal Maritime Commission, the Commission in *United States v. Hellenic Lines Limited*, No. 70-44, dated April 2, 1971, sustained our position that rate tariffs must be applied as written, that the intentions of the draftsman are not controlling, and that any ambiguity in the tariff must be resolved in favor of the

shipper. The Commission's decision resulted in recovery of charges improperly assessed by Hellenic Lines and another ocean carrier.

Government agency claims against carriers for loss of or damage to property are usually referred to us when they involve doubtful questions of law or fact. One case concerned a claim for \$300,000 for damages to a Government-owned tractor-trailer missile transporter and to the missile being transported. The damages occurred during a rain squall when the driver lost control of the transporter when he reached for a windshield wiper knob which fell to the floor; the vehicle left the highway and tipped over on its left side. After considering engineering and design reports dealing with the windshield wiper knob and the rejection of several smaller compromise offers, commencing at about \$25,000, the Department of Justice settled the claim for \$125,000 upon our recommendation. (B-170070, Dec. 29, 1971)

We continue to maintain close cooperation with the Department of Justice in the defense of almost 900 suits instituted in the U.S. Court of Claims by so-called exempt freight forwarders of household goods. One of the leading cases, *Trans Ocean Van Service v. United States* (192 Ct. Cl. 75), is now final on the issue of the Government's liability, but we recommended to the Department that the Court of Claims be asked to review the Commissioner's report as to the quantum of the damages.

In another leading case, *Global Van Lines, Inc. v. United States* (Ct. Cl. Nos. 259-65 and 355-65, decided Mar. 17, 1972), we recommended further proceedings as being in the best interests of the United States. (B-157382, R-157840, Apr. 27, 1972)

In a significant decision that will govern the audit of freight charges on thousands of shipments of household goods, we held that the mere ordering of a vehicle for loading household goods does not constitute a Government request for exclusive use of vehicle services and that a carrier statement on Government forms as to performance of loading and unloading services contradicted by transportation officers justifies refusal to pay for those services. (51 Comp. Gen. 208)

Carrier claims sometimes raise complex questions concerning intrastate or interstate transportation. In one unusual case we found that shipments of aviation fuel by rail on separate bills of lading from a Government-owned storage depot in a State on the eastern seaboard to other installations in the same State are intrastate in nature, even though the fuel was purchased by the Government in another State and was

shipped to the storage depot by ocean tanker because at the time of purchase the ultimate destinations of the fuel were unknown until it was requisitioned as needed by the installations. (B-174236, May 5, 1972, 51 Comp. Gen. 714)

One facet of our work concerns the construction of so-called section 22 contracts resulting from offers to perform transportation services submitted under 49 U.S.C. 22 and 317(b). We held that a low section 22 rate offered by motor carriers on shipments from a town near an Army ammunition plant applies to shipments from the plant, as intended by parties, rather than the higher tariff rate otherwise applicable on shipments from the town as contended by the billing carrier, which was a party to the offer. (B-174738, May 10, 1972, 51 Comp. Gen. 724)

Our decisions as to carriers' rights and liabilities are at times challenged in the courts. The Court of Claims in a decision of January 21, 1972, in *Chicago and North Western Railway Co. v. United States*, Ct. Cl. No. 71-70, sustained our decisions rendered some 5 years earlier (B-159778, May 17, 1967, and Sept. 8, 1967) withholding approximately \$41,000 otherwise payable to the carrier because of its failure to reimburse the Railroad Retirement Board for unemployment insurance benefits when paying so-called coordination and dismissal allowances to railroad employees under certain labor or merger agreements.

Legal Reference Services

Legal Reference Services, through its Law Library and its Index-Digest, Index and Files, and Legislative Digest Sections, provides the support necessary to carry out legal and other activities of the General Accounting Office.

To inform departments and agencies promptly of significant decisions, general distribution of advance copies of decisions and digests is made. Wider notice of significant decisions is furnished through the publication of monthly pamphlets and an annual volume of those decisions which are considered to be of widespread interest to the public as well as Government personnel. Information on unpublished decisions is distributed to Government agencies and libraries in quarterly digest pamphlets covering each of the subject areas discussed above.

Copies of decisions are available from GAO's Public Information Desk located in Room 7510. All published and unpublished decisions are furnished to LITE

(Legal Information Through Electronics) operated by the Staff Judge Advocate at the Air Force Accounting and Finance Center, Denver, Colo.

A cumulative citation and card index is maintained on all decisions, and research services are furnished upon request. During fiscal year 1972 the Index-Digest staff serviced 3,932 research inquiries.

The Index and Files Section recorded and analyzed 58,051 pieces of incoming correspondence and dispatched 22,779 decisions, reports, and letters. This section prepares a daily report summarizing incoming and outgoing correspondence to keep our offices and divisions informed.

The GAO Library, which serves all offices, divisions, and branches of the General Accounting Office, as well as the legal reference needs of the other agencies located in the GAO Building, handled 5,600 requests for reference services. Its annual inventory showed a total 57,556 bound volumes, looseleaf publications, pamphlets, and magazines.

The Legislative Digest Section prepared 9,540 legislative history files on all public and private bills introduced in the first and second sessions of the 92d Congress during the fiscal year 1972, and processed requests for reports on 606 bills from congressional committees, Members of Congress, and the Office of Management and Budget.

DECISIONS AND OTHER LEGAL MATTERS FISCAL YEAR 1972

Assignment areas:

| | |
|--|-------|
| Civilian Personnel | 933 |
| Procurement (includes 1,227 bid protest cases) | 1,926 |
| General Government Matters | 1,093 |
| Military Personnel | 538 |
| Transportation | 904 |

Total 5,394

Legislative and legal reports furnished to committees and Members of Congress and the Office of Management and Budget (included in the above statistics on decisions and other legal matters):

To committees of the Congress:

| | |
|-----------------------------------|-----|
| Legislative reports | 528 |
| Advisory legal opinions | 104 |

To Members of Congress:

| | |
|-----------------------------------|-----|
| Legislative reports | 4 |
| Advisory legal opinions | 297 |

Subtotal 933

To the Office of Management and Budget: 74

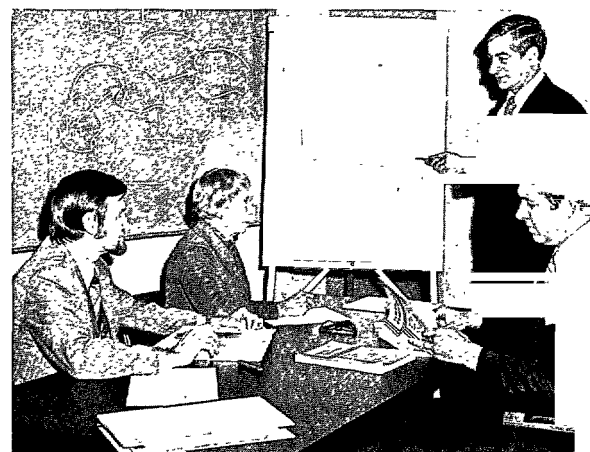
Total 1,007



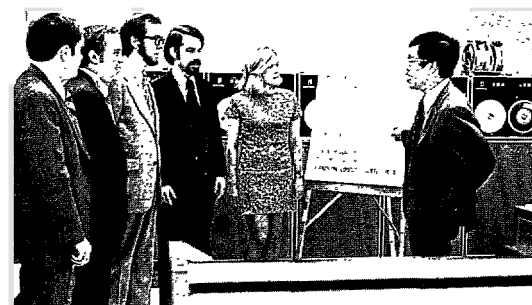
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④

- ① The Comptroller General congratulates Department of Labor representatives on completion of the approval of the Department's accounting systems. The Department of Labor became one of the few departments to have all the designs of its accounting systems approved.
- ② An interdisciplinary group of systems analysts use time-sharing computer terminals in analyzing large volumes of data relating to Federal programs. Standing from the left are Allan Rogers, Larry E. Huges, Barry B. Anderson, and John K. Harper. Seated from the left are Patrick B. Doerning, Wayne M. Dow, and Karen E. Bracey.
- ③ Productivity measurement task group discussing the results of phase II. Seated from the left are Ronell Raam and Mary Vickery. Standing from the left are John Moundalexis, group leader, and Edwin Soniat.
- ④ Computer auditors and specialists discuss techniques for auditing in an ADP environment.

CHAPTER FIVE

FINANCIAL AND GENERAL
MANAGEMENT STUDIES

Responsibilities

The Division of Financial and General Management Studies was established on July 1, 1971, under the supervision of Donald L. Scantlebury, Director, and Frederic H. Smith, Deputy Director.

The principal functions of this division are to:

- Assist other Government agencies in the development of their financial management systems.

- Represent the Comptroller General in the day-to-day conduct of the Joint Financial Management Improvement Programs.

- Review Federal agency accounting systems from time to time and settle accounts of Federal accountable officers (except military disbursing officers).

- Provide expert advisory services and make special studies in the fields of automatic data processing, systems analysis, actuarial science, and statistical sampling.

- Develop intergovernmental audit standards and improved audit relationships between Federal, State, and local governments.

- Make special studies of governmental management problems and operations.

An organization chart of this division appears on page 44.

Financial Management

Our major financial management responsibility is to promote the development of the financial management systems of Federal departments and agencies to

the end that they provide all data needed (1) in their planning, programming, budgeting, program execution, accounting, and reporting on programs and operations and (2) by the Congress in authorizing and funding programs and in overseeing program results. Among other things, we prescribe accounting principles and standards, including requirements for the design of accounting systems; assist agency staffs in developing their systems designs; review these designs for conformity with prescribed requirements and to identify possible problems; and review accounting systems in operation to determine whether the results are useful and meet the needs of management as specified by the Congress in the Budget and Accounting Procedures Act of 1950.

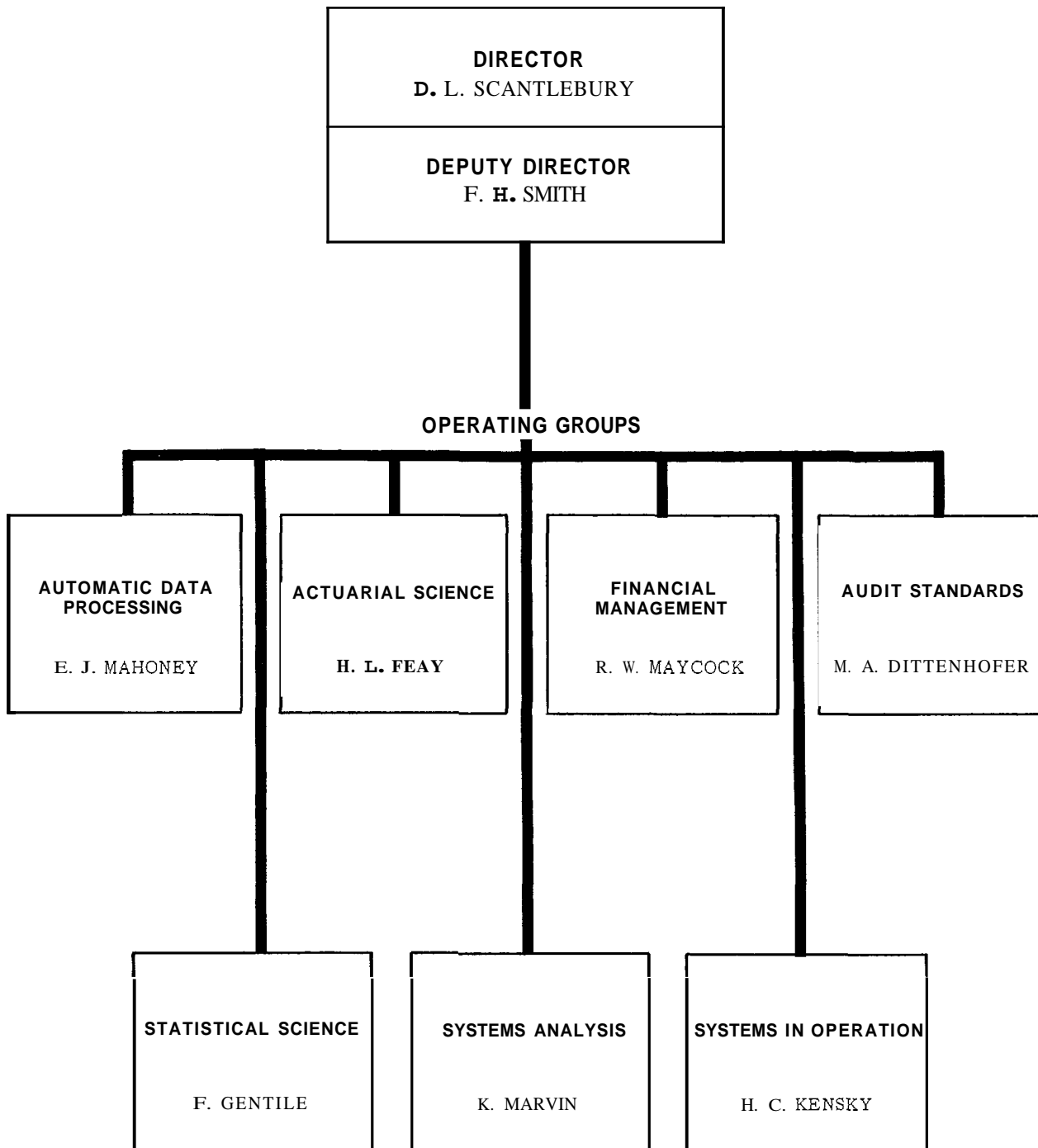
Measuring and Enhancing Federal
Productivity

In response to growing concern as to the possibilities of measuring productivity in the Federal sector of the economy, the Comptroller General joined with the Director of the Office of Management and Budget and the Chairman of the Civil Service Commission in a project to demonstrate the feasibility of developing such measures. This important joint project is under the direction of a steering committee (formed in March 1971) consisting of one member from each agency. Assistant Comptroller General Thomas D. Morris is the GAO representative on the steering committee.

A three-phased cooperative project involving 17 Federal executive agencies was planned. In Phase I, the 11 cabinet departments and six independent agencies were surveyed to determine the current use of quantitative measurement systems—namely, manpower planning, work measurement, unit cost measures, and productivity index systems. It was found that extensive use of quantitative measurement was currently being made in planning future manpower requirements (50 percent of the employees in the agencies studied) and in establishing formal work measurement standards by which to gauge the operating efficiency of activities with repetitive, quantifiable outputs (44 percent of the employees in the agencies studied). It was also found that 39 percent of the employees' work was covered by unit cost measures. Overall productivity indexes were in use for only about 20 percent of the employees' work.

In Phase II, particular emphasis was placed on the following areas.

DIVISION OF FINANCIAL AND GENERAL MANAGEMENT STUDIES



JUNE 30, 1972

Testing the feasibility of constructing productivity indexes along functional rather than agency lines.

Inquiring into selected agency systems to validate and extend the use of existing measurement systems and to identify disincentives to their use.

Encouraging the development and use of unit cost measures where practicable for improving allocation and control of resources.

Arranging exchanges of experiences in accomplishing public benefit outputs.

Investigating alternative methods of financing productivity-enhancing capital improvements.

A report on the study was submitted to the Joint Economic Committee in June 1972 (published as a Joint Committee Print, August 4, 1972). It stated that a workable technique had been developed that was capable of measuring trends in productivity of about 1,560,000 employees, or about 54 percent of Federal civilian employees, from year to year, on a consistent basis. The indexes developed showed that productivity per man-year for the measured work force increased by about 7.7 percent—an average annual rate of about 1.9 percent—from 1967 to 1971. The report recommended that the Bureau of Labor Statistics be asked to assess the data and methodology and to propose plans for assuming future collection and publication responsibilities. It also recommended that management practices be improved to enhance productivity in the Federal Government, including taking actions to expand the uses of measurement systems and to reduce disincentives to improved Federal productivity.

The project has been extended for another year. During this period an attempt will be made to further refine and improve the initial productivity indexes and their uses and to expand their coverage to additional Federal employees and to functions common to Federal, State, and local governments.

Accounting Recommendations of the President's Commission on Budget Concepts

The President's Commission on Budget Concepts recommended in 1967 that budget expenditures and receipts be reported on an accrual basis instead of on a cash basis. Specific instructions to the executive agencies for implementing the Commission's recommendations were issued by the Bureau of the Budget (now the Office of Management and Budget) and the Department of the Treasury. Necessary refinements

were also made in the accounting principles and standards of accounting for Federal agencies prescribed by the General Accounting Office.

In June 1971 the Director of OMB determined that the 1973 Federal budget would again be prepared on a cash basis since accrual data on revenues and expenditures was not yet sufficiently complete or reliable. In July 1971 the Director of OMB, the Secretary of the Treasury, and the Comptroller General requested the Central Agency Steering Committee on Implementation of the Recommendations of the President's Commission on Budget Concepts to study the direction and speed of future developments on accrual accounting and budgeting in the Federal Government and to make recommendations for resolving this matter. The Committee completed its report in September 1971.

In May 1972 the Director of OMB advised the Comptroller General that conversion of the budget to the accrual basis was being indefinitely deferred and that whatever resources were thereby made available in the executive agencies should be applied to actively pursuing the improvement of accrual and cost accounting as tools of agency financial management.

Cooperative Work in the Development of Accounting Systems

During the year GAO staff members actively participated with the staffs of the civil and international agencies in developing 41 accounting systems designs and assisted agencies on a consulting basis on 30 other systems. At June 30, 1972, 21 systems designs were under active development and 33 were expected to be submitted for approval during fiscal year 1973.

The Department of Defense has recently determined that it has 170 accounting systems designs subject to approval by the Comptroller General, as follows:

| | |
|------------------------------|-----|
| Army | 79 |
| Navy | 34 |
| Air Force.. .. | 40 |
| Other Defense agencies | 17 |
| <hr/> | |
| Total | 170 |

To date, only five of these systems have been approved; however, progress during fiscal year 1972 was considered good. A statement of accounting principles and standards was approved for all systems of the Air Force, and the first approval of an industrial fund system was given to the Naval Air Test Center, Patuxent,

FINANCIAL AND GENERAL MANAGEMENT

Md. (Of the 170 systems, 25 are industrial fund systems.)

We are also working with Department of Defense personnel in the following areas:

Design and implementation of the Joint Uniform Military Pay System for each of the military services—Army, Navy, Air Force, and Marine Corps.

Design and implementation of a program to improve the financial management systems of the Navy Department.

Development and publication of an accounting handbook which will replace numerous directives and instructions and encompass the accounting principles and standards prescribed for use throughout the Department.

Review of a testing and evaluation project of the Air Force in implementing an improved accounting system for operations.

Implementation and testing of revisions to the Mechanization of Contract Administrative Services of the Defense Supply Agency to be coordinated with Defense-wide procurement and accounting operations.

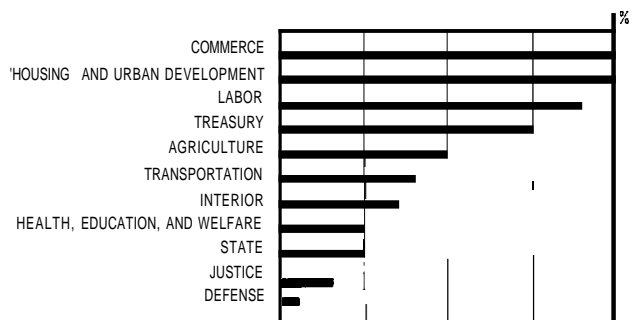
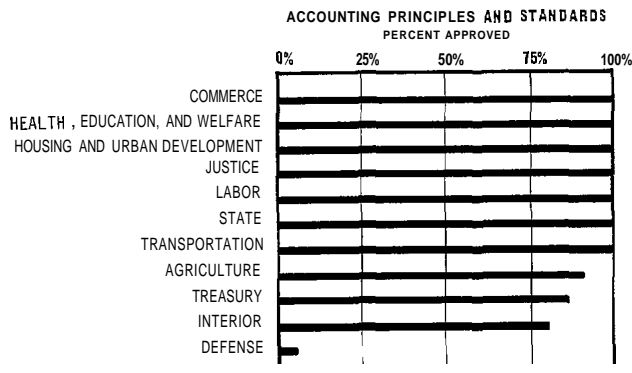
Development of a civilian pay system for the Air Force to be operated at each of the six Air Materiel areas in the continental United States.

Review and Approval of Accounting Principles and Standards and Proposed Systems Designs

Statements of principles and standards have been approved for seven of the 11 cabinet departments, but only two departments (Commerce and Housing and Urban Development) have had all of their accounting systems designs approved. In the Department of Housing and Urban Development, the designs of the sub-systems within its approved system have not yet been completed.

The first two charts in the second column indicate the status of department accounting systems, ranked according to degree of completion. Similar charts for independent agencies are not shown because most of them have only one accounting system.

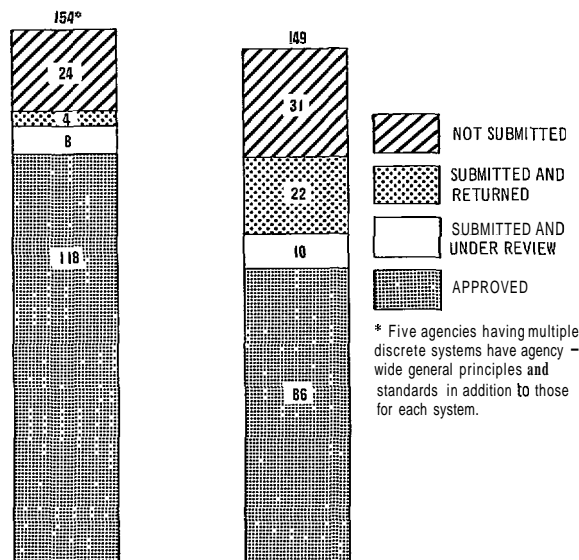
APPROVAL STATUS BY DEPARTMENT AT JUNE 30, 1972



APPROVAL STATUS OF STATEMENTS OF ACCOUNTING PRINCIPLES AND STANDARDS AND ACCOUNTING SYSTEMS DESIGNS IN CIVIL AND INTERNATIONAL AGENCIES AS OF JUNE 30, 1972

TOTAL PRINCIPLES AND
STANDARDS SUBJECT TO
APPROVAL

TOTAL SYSTEMS DESIGNS
SUBJECT TO APPROVAL



Review and approval activities for the civil and international departments and agencies during fiscal year 1972 are summarized below.

| | Principles and standards | Systems designs | |
|------------------------------------|--------------------------------|---------------------|------------------------|
| | | Complete systems | Segments of systems |
| Under review July 1, 1971. | 7 | 14 | 1 |
| Submitted for review | 11 | 6 | |
| Approved. | 10 | 7 | 1 |
| Returned or withdrawn | | 3 | |
| Under review June 30, 1972 | 8 | 10 | |

At June 30, 1972, 86 of a total of 149 complete accounting systems designs had been approved in the civil and international departments and agencies, as shown in the bottom chart on page 46.

As of June 30, 1972, the Comptroller General had approved 27 statements of accounting principles and standards and four systems designs in the Department of Defense. Two other statements of accounting principles and standards and one system design were under consideration.

In approving the Navy industrial fund accounting system, we established a basis for preparing acceptable design documentation for other industrial fund accounting systems. Such submissions will not await the solution to the system identification problem, and action is being initiated to step up the submission of

approximately 40 different types of industrial fund accounting systems in the Department.

The table below summarizes the approvals of agency accounting principles and standards and systems designs during fiscal year 1972.

Review of Accounting Systems in Operation

The General Accounting Office reviews, from time to time, Federal agency accounting systems in operation as required by the Budget and Accounting Procedures Act of 1950. The objectives of these reviews are to (1) determine whether accounting systems comply with the principles, standards, and related requirements prescribed by the Comptroller General, (2) identify areas needing improvement and encourage further development effort by the executive agencies, (3) identify ways to improve overall financial management, and (4) settle accounts of accountable officers.

Our ultimate concern in the financial management area is that all departments and agencies have at hand the tools for effective financial management, among the most important of which are adequate accounting systems in operation. After an accounting system design is approved, we follow up on the agency's installation and operation of the system. If the system is not put

| | Approval date | | | Approval date | |
|---|--------------------------------|--------------------|--|--------------------------------|--------------------|
| | Principles and standards | Systems designs | | Principles and standards | Systems designs |
| CIVIL DEPARTMENTS AND AGENCIES | | | INDEPENDENT AGENCIES—Continued | | |
| Department of Agriculture: | | | Executive Office of the President: | | |
| Consumer and Marketing Service | | 7-21-71 | Office of Emergency Preparedness | 4- 3-72 | |
| Office of Management Services | | 2-25-72 | Office of the Vice President | 5- 5-72 | |
| Working Capital Fund | | 2-25-72 | National Security Council | 6-30-72 | 6-30-72 |
| Agricultural Research Service: | | | Advisory Commission on Inter- | | |
| Working Capital Fund | | 6-30-72 | governmental Relations | 6- 8-72 | 6- 8-72 |
| Department of the Interior: | | | Federal Home Loan Bank Board | 6-27-72 | |
| Bureau of Land Management | | 8-10-71 | National Labor Relations Board | 6-30-72 | |
| Bureau of Reclamation | 12- 8-71 | | MILITARY DEPARTMENTS | | |
| Bureau of Mines | | 6-27-72 | Department of the Navy: | | |
| Department of the Treasury: | | | Navy Industrial Fund Handbook | | |
| U.S. Secret Service | 11- 1-71 | 11- 1-71 | for RDT & E Activities (NAVSO | | |
| INDEPENDENT AGENCIES | | | P-3045) at the Naval Air Test | | |
| District of Columbia Government | 2-18-72 | | Center 6-30-72 6-30-72 | | |

into operation promptly, or if it has been adversely modified, we advise the agency of the needed corrective action. If the recommended action is not taken, approval of the design is withdrawn.

In fiscal year 1972, we issued nine reports on specific aspects of Department of Defense accounting systems—three to the Congress and six to the Secretary of Defense and Secretaries of the military departments. We also issued seven reports to agency officials on selected aspects of civil agency accounting systems. Examples of subjects on which we made recommendations in reports are (1) simplifying accounting procedures to save personnel costs and computer processing time, (2) improving the usefulness of management reports by providing comparisons of costs and associated revenues for manageable segments of operations, (3) making adequate studies before effecting major accounting systems changes, (4) improving pay systems, (5) maintaining supply inventory records, and (6) improving financial statements and fund controls.

Review and Settlement of Accountable Officers' Accounts

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 67(a)) provides, in part, that :

except as otherwise specifically provided by law, the financial transactions of each * * * agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States.

During fiscal year 1972, 46 reports were issued on reviews of accounts of accountable officers in the civil departments and agencies. These reports, directed to agency officials, are listed in Section III of the Appendix. They contain the results of our reviews of the financial management systems, including tests of receipt and expenditure transactions, and recommendations for improvement.

Examples of matters reported are (1) weaknesses in controls over cash collection, (2) failure to show substantial sums deposited in savings and loan associations on financial statements, (3) failure to reconcile results of physical inventories with property records, (4) failure to adequately review the validity of obligations recorded at the end of the fiscal year, (5) failure to recoup travel advances not needed by employees, (6)

inadequate control over accounts receivable and inadequate collection action, (7) inadequate control over time and attendance reporting and payroll check distribution, (8) failure to properly mark paid invoices to prevent duplicate payments, and (9) inadequate internal audit of receipt and expenditure transactions.

Administration of Civilian Pay and Allowances in the Department of Defense

Our review of these activities includes an evaluation of the systems and procedures used, the effectiveness of internal controls and internal audit work, and tests of payroll transactions. During 1972 we emphasized reviewing payroll payments applicable to within-grade increases, premium pay, and severance pay.

During 1972, 59 reports were issued on reviews of the administration of civilian pay and allowances at military installations in the United States; 10 reports were issued pertaining to overseas installations. A list of these reports, directed to agency officials in each of the military departments, is included in Section III of the Appendix.

Examples of matters reported are (1) need to strengthen internal controls in computerized payroll operations, (2) lack of compliance with administrative regulations governing payments to employees under the Coordinated Federal Wage System, (3) deficiencies in the maintenance of individual retirement records, (4) deficiencies in determinations, computations, and control of severance pay entitlements, (5) lack of adequate review and control of pay change actions by personnel offices, (6) inadequate control over pay documents within the payroll office, (7) opportunities for decreasing payroll processing costs by consolidating payrolls, and (8) lack of required documentation to support employees' entitlement to annual premium compensation.

In July 1971 we sent a special report to the Secretary of Defense on our review of severance payments to separated employees made by selected military installations. The review was made because we anticipated that a large number of severance payments would be made to employees separated because of base closures and reductions in force announced by the Secretary in October 1969 and March 1970. We concluded that independent verification of the correctness of determinations and computations of entitlements needed to be strengthened and that action was needed to insure that severance payments would be promptly dis-

continued when employees were reemployed. We made specific recommendations to correct the procedural deficiencies noted. The Secretary advised us in September 1971 that the military departments had initiated actions in line with our recommendations.

In December 1971 we sent to the Chairman, Civil Service Commission, a special report on our review of the implementation of the Coordinated Federal Wage System. The Commission developed the System pursuant to the President's directive to provide a common Federal wage system for employees in trade, craft, and laboring occupations. We concluded that the System had been promptly implemented and that pertinent practices had been coordinated. We found, however, that the Commission's procedures for conducting wage surveys and establishing wage schedules needed to be strengthened. We made specific recommendations to the Chairman on how this could be done. The Civil Service Commission is now considering these recommendations in the light of pertinent, pending legislation.

Special Report on Accounting Systems' Development Problems and Progress

In May 1972 we issued our third report to the Congress summarizing our findings on progress and problems relating to improvements of Federal agency accounting systems during calendar years 1970 and 1971. The House Committee on Government Operations, in its report dated March 5, 1968 (H. Rept. 1159, 90th Cong., 2d sess.), had recommended that such a report be made.

Joint Financial Management Improvement Program

The Joint Financial Management Improvement Program (JFMIP) is a Government-wide cooperative effort of all Federal agencies to establish and maintain systems of financial management of maximum usefulness throughout the Federal Government. Leadership is provided by the four principals of the program—the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the Civil Service Commission.

The principals furnish broad policy guidance to the program's Steering Committee and receive overall reports of progress. The Steering Committee, made up

of a representative of each of the central financial agencies, coordinates the program. The Committee meets regularly to consider problem areas, direct work projects, and evaluate financial management progress throughout the Government.

In meetings during the year, the Steering Committee and top financial management officials of the Federal Aviation Administration; the U.S. Coast Guard; the Department of Health, Education, and Welfare; the Veterans Administration; the General Services Administration; and the Environmental Protection Agency reviewed financial management systems development progress and emphasized the need for managing program performance and costs and for designing accounting systems to meet management needs.

The Steering Committee continued to publish the JFMIP News Bulletin quarterly. The Bulletin highlighted JFMIP activities and included progress reports on Government-wide financial management improvement activities.

A second State-Federal Financial Management Conference was held in February 1972 in Washington, D.C., to follow up on the favorable response to the initial conference in October 1971. It was sponsored by the Council of State Governments; the National Association of State Governments; the National Association of State Auditors, Comptrollers, and Treasurers; the Fiscal Review and Post-Audit Workshops of the National Legislative Conference; and JFMIP. The conference was attended by State financial executives and the top financial management staffs of Federal agencies that are active in grant-in-aid programs. It centered around the theme "Simplification and Coordination of Federally Assisted Programs."

A JFMIP-supported bill signed into law by the President (Public Law 92-310, approved June 6, 1972) repeals all statutory requirements for bonding Federal civilian employees and military personnel who are charged with accountability for public funds or public property and permits the Government to become a self-insurer for fidelity losses. The act provides that, when losses prove to be uncollectible, agencies may, under regulations to be issued by the Comptroller General, charge their operating appropriations. This act will save the Government money and is in accord with the general policy of self-insurance that the Government has established for most of its activities.

More detailed information about the accomplishments and activities under the Joint Financial Management Improvement Program appears in separately published annual progress reports on the program.

General Management

Automatic Data Processing

The tremendous impact of automatic data processing (ADP) on governmental operations over the past decade and the potential benefits from ADP, particularly cost savings and improved efficiency, are well known. On the other hand, many myths persist as to the real benefits of ADP systems, and rapid technological changes demand a continual updating of knowledge if the truth is to be sorted out from the myths. Unless expert policy guidance on ADP is available to governmental managers, there is danger that important decisions by the Federal Government in helping to keep computer technology healthy, competitive, and productive may not be made or that poor decisions will be made.

For more than a decade, we have been studying and reporting on policy matters arising from the continually expanding impact of ADP systems on Government operations. We are continuing to expand and strengthen our capabilities in this highly technical area to enable us to better serve the Congress, assist other Federal agencies, and provide technical assistance in the audit of Federal programs and operations.

Government-wide Reviews

Past GAO reports on ADP matters have critically evaluated a wide variety of Government-wide ADP policy issues, including:

- Trend of changes in developments of ADP equipment and software.
- Financial policies.
- Maintenance and peripheral equipment issues.
- Acquisition and utilization policies.

Studies are underway on a number of ADP state-of-the-art issues which—although not new areas of concern—have not previously received proper attention in the context of Government-wide policy positions. Probably the single most challenging task undertaken is an attempt to develop for the Congress and managers throughout the Government a comprehensive set of policies and standards for use in evaluating the productivity and efficiency of ADP operations. Other studies concern:

- The need for better ADP documentation.
- The need for improved security measures over ADP systems.

The merger of telecommunication networks with computer systems.

The trend of development of micromation and automatic entry procedures.

The standardization of data codes, files, banks, and systems.

Direct Assistance to the Congress

GAO efforts on behalf of the Congress relating to the development, establishment, and maintenance of a standardized information and data processing system in the Federal Government—a requirement of the Legislative Reorganization Act of 1970—are described in Chapter Two (p. 11).

Principles and Procedures for Information Systems

We have started a long-term project to (1) develop generally accepted principles and procedures for planning, developing, and operating information systems and (2) create a body of knowledge supporting these principles and procedures. At the request of the Comptroller General, the National Academy of Sciences has directed its Computer Science and Engineering Board to assist in this long-term effort.

The project is being undertaken in stages. The first stage, the development of a plan, is being done by a special planning group made up of Board members, specialists, and others to insure the necessary range and depth of expertise. Development of the plan was completed in October 1972. Follow-on activities will depend on the outcome of this planning effort.

The Board believes that the effective operation and use of computer systems is a nationally important problem and that the outcome of GAO's long-term program will contribute directly to the improved utilization of computer systems throughout the Government and the Nation at large.

Research and Development

We conduct studies and develop advanced computer auditing techniques to keep pace with advances in computer technology and increasing sophistication in computer-based systems. We also maintain a body of knowledge on the current state of the art in ADP.

The primary objective of our research and development efforts in this area is to improve the capability of our audit staffs in evaluating agencies' effectiveness in their management of ADP systems. As agencies continue to extend the state of the art in designing their



GAO staff members Judith Berteotti, Raymond Chan, and Kenneth Hunter use input and display terminal in the Office of the Clerk, House of Representatives, to select data from the automated files of the House.

systems, we recognize the need to develop appropriate methods for auditing these systems and effective audit techniques and tools.

Systems Analysis

Our Office began developing a systems analysis capability about 5 years ago. Since then we have steadily increased the size of this specialized group in the Financial and General Management Studies Division to 23 professional employees by hiring carefully selected specialists from outside our Office and by training selected experienced GAO auditors in various university graduate schools. This group provides a central capability in accordance with section 204 of the Legislative Reorganization Act of 1970 which requires us to have available employees who are expert in analyzing and conducting cost-benefit studies of Government programs. Similarly trained employees are also located in

other GAO divisions where their work pertains to the particular review objectives of the divisions to which they are assigned.

The central group performs special studies on its own initiative, assists in ongoing audit reviews being conducted for other units, makes reviews at the request of Members of Congress and of congressional committees, and provides instructors and materials for training auditors in the uses of systems analysis.

Special Studies

During the year two congressional reports were issued on the results of special studies:

A report on "Alternatives to Secondary Sewage Treatment Offer Greater Improvements in Missouri River Water Quality" recommended that the timing of the requirement for secondary treatment of sewage be reconsidered in the light of the conditions

existing along the river and the nature of the sources of pollution. (See Appendix, Section I, Item 85a.)

We also submitted a report to the Joint Economic Committee on "Feasibility of Constructing Price Indexes for Weapons Systems." This report concluded that available price indexes were unsuitable because they were based on purchases of items other than military items or because they did not include a sufficient cross section of military items. We believe that appropriate price indexes could best be constructed by the Department of Defense and the Bureau of Labor Statistics and that this could best be done by:

Requiring contractors and major subcontractors to submit to the Department of Defense the data necessary to construct labor and material price indexes.

Directing the Department to construct price indexes and report the results to the Congress.

Making the Bureau of Labor Statistics responsible for regularly preparing marketwide price indexes for different types of weapons systems. (See Appendix, Section I, Item 160a.)

We responded to a request for analysis of studies sponsored by the National Aeronautics and Space Administration (NASA) on which the cost estimates and economic justification of the proposed space shuttle program are based. The assistance furnished required the capability to assess, test, operate, and modify the computerized cost estimating and economic models which were developed for NASA by Mathematica, Incorporated.

Case Studies

Some of our reports have demonstrated the usefulness of systems analysis but they have not fully explained the application of the systems analysis approach or techniques. For this reason, a new series of technical case study reports was started during the year to provide a means of more fully communicating these applications to auditors in G.40, Federal agencies, and State and local governments and to other readers interested in these applications. Two such studies were issued during the year.

Audit Standards

During the year, work was completed in preparing a statement of standards for auditing governmental

organizations, programs, activities, and functions. This project was begun in 1970 under GAO leadership and was carried out by representatives from major Federal agencies involved in grant-in-aid programs. Assistance was also obtained from representatives of State, county, and city governments and from leading professional organizations including the American Institute of Certified Public Accountants, the Institute of Internal Auditors, the Federal Government Accountants Association, the Municipal Finance Officers Association, and the American Accounting Association.

The statement of auditing standards (in booklet form) was officially released on August 1, 1972, by the Comptroller General. In releasing the statement, he stated:

In my opinion, these new, expanded auditing standards are a very important landmark in the auditing field. They provide for a scope of auditing of government programs and activities that, properly applied, should result in much better information for managers, legislators, and the public on how public funds are administered and expended and whether results intended are being achieved.

We are hopeful that these standards will foster broader and more responsive auditing at all levels of government, and that they will be a real force for improvement in those State and local governments that still are performing financial audits of limited scope and are not responding to the needs of users for more and better information on public programs. I believe this aspect is of special importance at this time of growing concern with accountability for how public funds are managed and the consideration being given to sharing Federal revenues with State and local governments.

The standards are intended to apply to audits at all levels of government irrespective of who performs them.

The issuance of this statement is but a beginning step in the long process of strengthening the audit of governmental programs and activities at all levels of government—an important need in view of the rapidly growing amount of Federal financial assistance being provided to State and local governments.

Other work in process or planned in this long-range effort includes:

Performing demonstration audits in cooperation with State auditors.

Developing workable audit coordinating machinery.

Devising suitable and effective training programs.

Drafting model audit laws for State and local governments.

Actuarial Science

Because of the many Government programs, such as the Federal Employees Health Insurance Program, the Civil Service Retirement Fund, and the Federal Housing Administration Mortgage Insurance Program, which are built on insurance or quasi-insurance principles, we began in 1968 to develop a staff experienced in actuarial science. As of June 30, 1972, this staff consisted of three Fellows of the Society of Actuaries and two actuarial students. They enable us to assist our audit staffs where actuarial problems are encountered, make special studies in this field, and provide consultative and other assistance to the Congress.

At June 30, 1972, this staff was engaged in a study of a private severance benefit plan which was classified as a type of pension plan. The **work**, which was requested by the Subcommittee on Investigations, Senate Committee on Government Operations, will involve studies of the plan's funding methods, benefit structure, expenses, written instruments, financial guarantees, and related subjects.

During the year this staff participated in our review of the Government-wide Indemnity Benefit Plan of health insurance for Federal employees and annuitants and subsequently provided information on this plan

to the Subcommittee on Retirement, Insurance, and Health Benefits, House Committee on Post Office and Civil Service.

Statistical Sampling

We have a small staff of specialists in statistical sampling to assist in properly using this technique in our audit work. This staff provides expert assistance in preparing programs for audits involving the use of statistical sampling techniques. It also provides proper statistical interpretations of audit findings and prepares work papers to support estimates, confidence levels, and sampling precision; prepares and presents material in training sessions on practical applications of basic statistical concepts to audit situations; and evaluates and advises on sampling methods used by other Government agencies.

During the year, the staff analyzed and reported to the Congress on the proposed survey by the Civil Aeronautics Board of claims against air carriers for lost or damaged cargo. This staff also cooperates with the Interagency Auditor Training Center of the Department of Commerce in providing a 3-day statistical sampling workshop to State auditors and accountants.



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Materiel Management

Five reports were issued on defense materiel management matters, four to the Congress and one to the Secretary of Defense.

One of the congressional reports stated that our initial review of phasedown operations in Vietnam completed through April 15, 1970, disclosed a number of deficiencies. A followup review, covering the period April 16, 1970, through December 1970, revealed that much progress had been made to insure an orderly phasedown and to cope with the problems identified in the first report. However, our review disclosed various problems which focused on the major facets of the logistics phasedown—redistributing equipment of departing units, using excess depot stocks, reducing the flow of materiel to Vietnam, and disposing of excess property. These problems were brought to the attention of local management and were discussed with appropriate officials in DOD and the military services who took or promised prompt corrective action. (See Appendix, Section I, Item 129.)

Inventory accounting records of the military services and the Defense Supply Agency were the subject of another congressional report. These records are unreliable due primarily to the lack of appropriate financial controls. The services and the Defense Supply Agency (DSA) are implementing plans to improve the accuracy of their records. These changes should result in improvements but only the plans of DSA and the Army appear to provide the financial controls we believe necessary. The controls being incorporated into the DSA system should be evaluated and similar controls should be built into the systems of the other military services. (See Appendix, Section I, Item 169.)

Two other reports to the Congress dealt with the acquisition of initial supporting equipment and parts by the Departments of the Navy and the Air Force.

Much of the backup equipment and spare parts acquired by the Navy as initial support for shipboard equipment is seldom, if ever, used. A significant reduction in the quantities procured would result in savings in inventory investment and inventory maintenance costs without impairing fleet readiness. The Navy agreed that solutions should be sought to problems concerning its investment in repair parts and cited a number of actions generally responsive to our recommendations. (See appendix, Section I, Item 233.)

The Air Force also has problems in its initial provisioning processes. In the case of the F-111 aircraft the Air Force spent \$116 million to buy spare parts

CHAPTER SIX

LOGISTICS AND COMMUNICATIONS

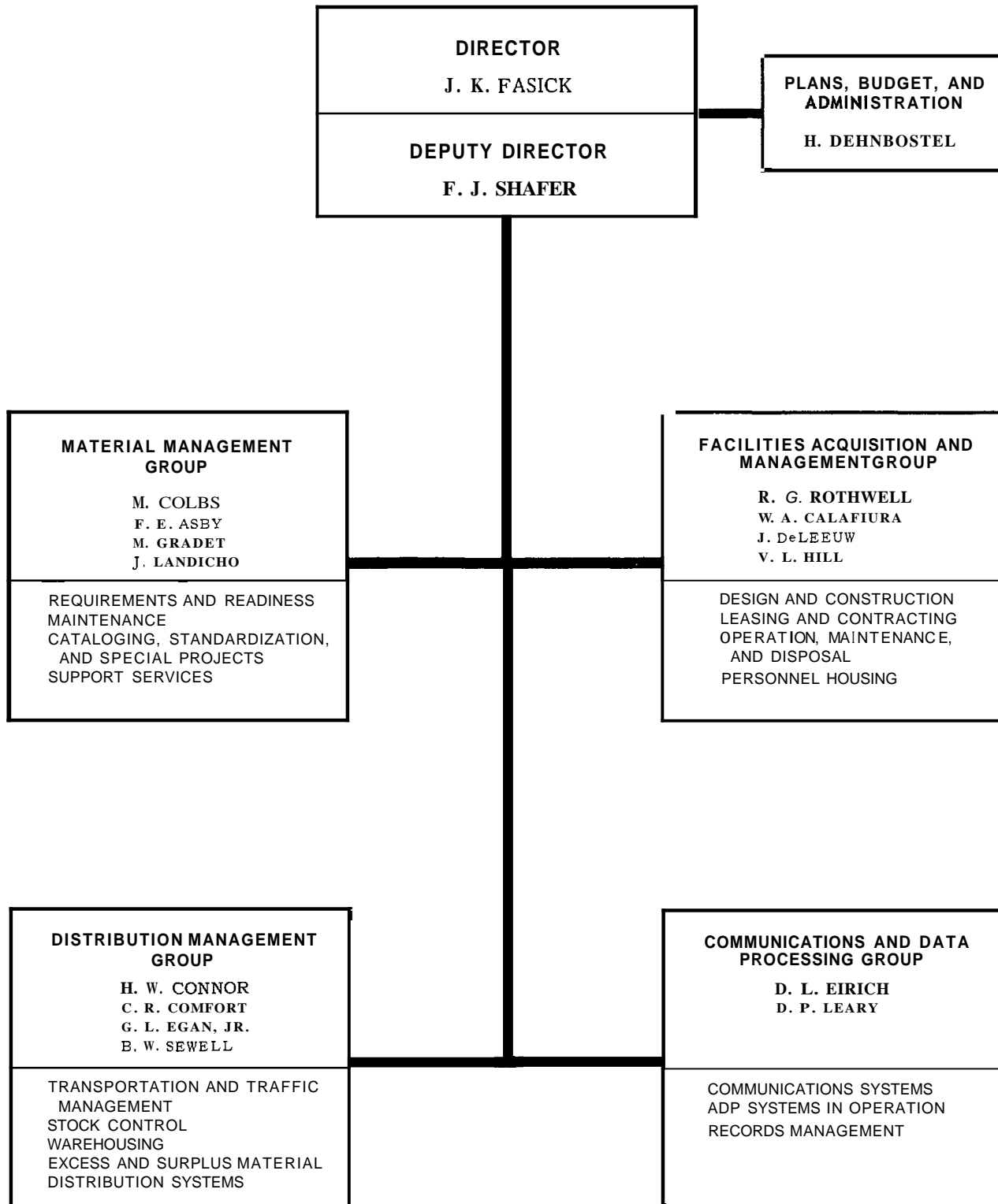
Responsibilities

The Logistics and Communications Division is responsible for the audit of logistics and communications activities in the Department of Defense and for related policies and practices throughout the Federal Government. It also is responsible for activities of the General Services Administration not otherwise assigned; for functions of the Office of Telecommunications Policy; and for activities of the Federal Government directly related to printing and publications, including those of the Government Printing Office. This division is under the supervision of J. Kenneth Fasick, Director, and Fred J. Shafer, Deputy Director. Its organization chart appears on the following page.

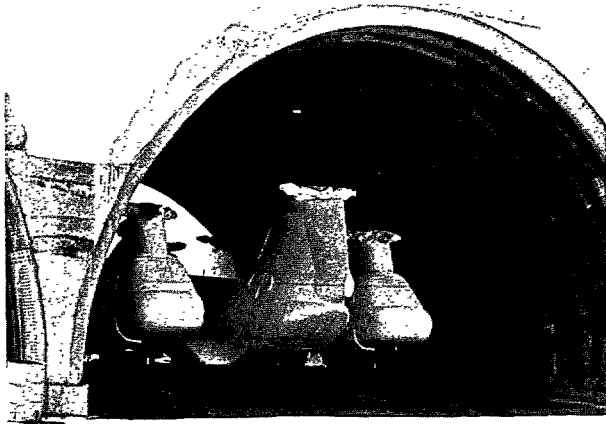
Audit efforts in the areas of logistics and communications were directed toward aiding the various Government agencies in improving their operations and, at the same time, eliminating unnecessary costs. Our audits and reviews were directed, for the most part, to such matters as (1) materiel management, (2) maintenance, repair, and overhaul of equipment and components, (3) materiel readiness of the armed forces, (4) facilities acquisition and management, (5) communication systems, (6) data processing and information systems, and (7) transportation of materiel and personnel.

Our more important reviews are summarized in this chapter by type of activity and are reported in more detail in Section I of the Appendix.

LOGISTICS AND COMMUNICATIONS DIVISION



JUNE 30, 1972



Marine CH-46 helicopters in plastic cocoons being transferred back to the United States from Vietnam.

which were not needed during the initial support period and which may never be needed. Also it bought spare parts from the prime contractor, at a markup of \$56 million over prices charged by the actual manufacturers of the parts, without evaluating the trade-off between the markup and the value of the services provided by the prime contractor. The Air Force generally concurred in our recommendations for improving the initial provisioning process. (See Appendix, Section I, Item 232.)

We reported to the Secretary of Defense that prop-

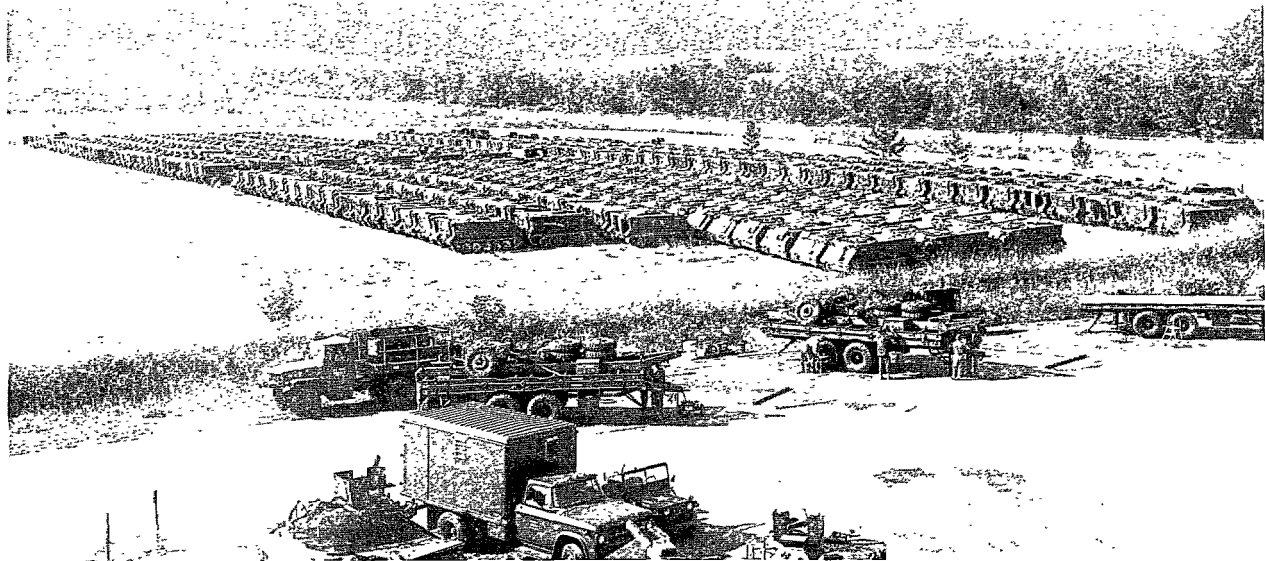
erty disposal activities in Vietnam had encountered difficulties in safeguarding materiel, had not been reporting some usable materiel for worldwide screening, and had not always segregated scrap prior to sale. In the last instance, we estimated that, at one activity, scrap sales could be increased \$1.2 million annually if scrap was segregated. Local management and Army staff officials agreed in general with our findings and the need for some corrective actions. (See Appendix, Section I, Item 130.)

Maintenance

Two reports were issued on defense maintenance matters.

One report to the Congress stated that the Navy's air-to-air combat readiness capability was impaired in fiscal years 1971 and 1972 because there were not enough operational Sparrow and Sidewinder missiles available to meet the Navy's readiness goal. Although a missile can be repaired in less time and at a lower cost than a new one can be bought, the Navy emphasized procuring new missiles rather than repairing unserviceable missiles on hand. We recommended that a larger repair program be promptly funded if a similar situation occurs in the future. (See Appendix, Section I, Item 235.)

Unserviceable condition code "F" carrier personnel M113A1 procured for storage awaiting overhaul.



We reported to the Secretary of Defense that the Army was procuring materiel while similar items on hand were not being repaired. For example, the Army could have saved about \$7.8 million if it had repaired 412 M113A-1 personnel carriers which had been scheduled for repair and had deferred procuring others. The Army generally agreed with our recommendation that it establish procedures to identify such situations in time to balance the funding of repair and procurement programs. Subsequently, it reduced planned procurements for fiscal year 1973 by \$159.9 million and increased repair costs by only \$28.7 million, which resulted in a net reduction of \$131.2 million. (See Appendix, Section I, Item 234.)

Readiness

We reported to the Congress that many units of the Strategic Army Forces (STRAF)—4⅓ Divisions that are to be constantly available for deployment—were not combat ready because of (1) lack of repair parts, (2) lack of skilled personnel, (3) high turnover of personnel, and (4) funding restrictions. The Army generally concurred in our evaluation and in many of our suggestions but it did not make a definite analysis of the costs or benefits of alternative plans for protecting equipment or restructuring STRAF as we had suggested. (See Appendix, Section I, Item 216.)

Facilities

Six reports were issued on matters relating to Government facilities.

In a report to the Congress, we discussed the General Services Administration's administration of criteria for the leasing of buildings to be constructed. GSA is authorized to lease space for the Government's use but must first obtain the approval of the Public Works Committees of Congress when space is to be leased in a building that is to be constructed by the lessor at an estimated cost of more than \$200,000. The purpose of requiring the Committees' approvals is to prevent GSA from entering into a major lease-construction program without congressional consent.

GSA has established five criteria which, if complied with objectively, will allow it to lease buildings to be constructed by the lessors without first obtaining congressional approval. However, in leasing 11 buildings in the two GSA regions we visited, GSA's practices did not constitute an objective application of the criteria and

did not provide the degree of control contemplated by the Congress. GSA, in effect, entered into 11 major lease-construction transactions without first obtaining the necessary congressional approvals.

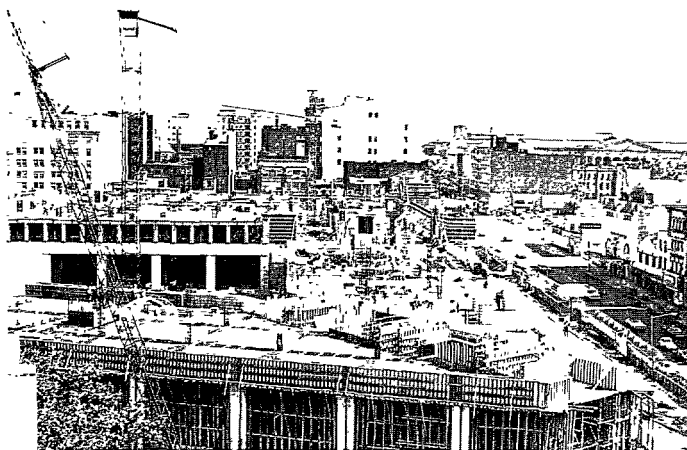
We pointed out these weaknesses to a congressional committee which then inserted language in a bill before it that would strengthen congressional control over GSA's leasing activities. The bill was subsequently enacted as Public Law 92-313 on June 16, 1972. (See Appendix, Section I, Item 153.)

In another report we informed the Congress that cost accounting for the \$400 million spent annually to operate and maintain military family housing was inadequate for management purposes. We found that grouping widely dissimilar categories of housing distorted costs and that many older houses were no longer economical to maintain.

DOD agreed that revising housing categories for better comparative cost data might be useful but felt the additional expense would not be justified. We suggested that DOD ascertain the cost of the revision and, if it was too high, simplify its present elaborate system. DOD agreed to give the Congress a plan for replacing uneconomical housing after it met other, more urgent priorities. In view of DOD's indefinite response, we suggested that the Congress request submission of the plan. (See Appendix, Section I, Item 198.)

On a review requested by the House Committee on Appropriations, we reported that the Army's 12-year program for modernizing its ammunition-producing facilities—at an estimated cost of \$3.1 billion—had not been adequately coordinated on a Defense-wide basis, although the Navy also has plans to modernize its similar facilities. The Army program does not seem to provide for an orderly upgrading of its facilities in relation to its total requirements. (See Appendix, Section I, Item 193.)

On the basis of a review requested by Senator James Pearson, we reported that the Army's decision to place the Kansas Army Ammunition Plant in an inactive status was based on a study that had (1) underestimated production costs at another plant for one type of ammunition, (2) included an overstated estimate of shipping costs for certain ammunition produced by the Kansas plant, and (3) included as savings certain reductions that had no relationship to the closing of the Kansas plant. Subsequently, the Army reevaluated its study and decided to continue producing ammunition at the Kansas plant. (See Appendix, Section I, Item 192.)



Building under construction.

We reported to the Congress that the military services in the Pacific had accomplished much in reducing the costs of support functions by consolidating common services but that there was room for further improvement. For example, the Army could save **\$2** million annually by converting a hospital in Tokyo, Japan, to a dispensary since the Navy and Air Force also have hospitals in the Tokyo area and the Army hospital is operating considerably below capacity. DOD cited several actions that were being taken to improve interservice support in the Pacific. (See Appendix, Section I, Item 194.)

We advised the Secretary of Defense that colleges and universities generally provide 15 to 18 square feet of space for each student in the construction of classrooms. The Army and Navy, however, allow from 30 to 35 square feet of space per student. The Air Force allows only 12 square feet but no consideration is given to the number of students to be seated in a classroom at any one time. DOD should develop improved space-planning criteria, and the military services should review their classroom construction projects to determine the feasibility of reducing or eliminating projects. DOD agreed with our recommendations and advised that it had developed the recommended criteria and that the military departments were continuing their review of construction projects. (See Appendix, Section I, Item 152.)

Communications

Two reports were issued on Government communications matters.

A congressional report dealt with a lack of compliance with the GSA telephone equipment standards at 16 civil installations we visited. About \$74,000 could be saved annually at these installations by adherence

to GSA standards. After we suggested that surveys to insure compliance with the GSA standards were needed, the Federal Property Management Regulations were modified to require civil agencies to perform annual surveys and to furnish GSA with certifications that such surveys have been conducted. (See Appendix, Section I, Item 230.)

We reported to the Secretary of Defense that for leased communications services for which DOD spends about \$250 million annually in the United States (1) a complete inventory of resources did not exist and (2) usage information was generally lacking or was unreliable. DOD disagreed with our proposal that studies be made to determine the feasibility of creating a centralized defense activity to manage communication resources. However, action has been taken to eliminate certain terminals, circuits, and portions of networks resulting in savings of about \$120,000 annually. (See Appendix, Section I, Item 231.)

Data Processing

We reported to the Congress on the Government's cost of procuring instrumentation tape, estimated to be \$10 million annually. Several agencies have established programs for the economical rehabilitation of used tape. Such a program should be established throughout the Government. GSA has agreed to study the technical and logistical aspects of a Government-wide program and has advised us that, if such a program is feasible, it will be initiated. (See Appendix, Section I, Item 220.)

Information Systems

Three reports on defense information systems were issued.

We reported to the Secretary of Defense that the Army's Base Operating System—intended to improve the readiness of Army units—had numerous deficiencies. The House Committee on Appropriations, after receiving a copy of this report, recommended that further extension of the system be deferred and made the Office of the Secretary of Defense responsible for insuring that the deficiencies would be corrected. We subsequently found that, although problems still existed, the system was receiving command emphasis and high-level attention. The system could be extended when the Army and OSD assured the Committee that

LOGISTICS AND COMMUNICATIONS

the problems had been resolved. (See Appendix, Section I, Item 219.)

We reported to the House Committee on Appropriations on two other systems.

The Army's Combat Service Support System (CS3) is a mobile computer system designed to increase the readiness of combat units. On two previous occasions we reported to the Committee that the Army was not in a position to put the CS3 system into operation. In the most recent followup review, we concluded that because of the still existing deficiencies the Army needed to continue testing and evaluating the system before its deployment. (See Appendix, Section I, Item 218.)

A review of the Navy's Integrated Command/Management Information System showed that a master plan was needed to help insure its development within the concepts and objectives established. It also disclosed that there was a need for the Department of the Navy to reevaluate its long-range plan to integrate its information systems. That plan was intended to provide overall guidance for the development of the Navy Integrated Command/Management Information System but was not being pursued because (1) top management would not support it, (2) there was a lack of qualified staffing, (3) management was unable to define its total information needs, and (4) the consensus was that the Navy was not ready for such finite planning. We proposed that the Navy reevaluate its planning requirements. (See Appendix, Section I, Item 221.)

Transportation

Six reports were issued on transportation matters.

In one, we reported to the Congress that in 1969, 355 Victory and C2-class ammunition ships departed for the Far East and Southeast Asia with 200,000 measurement-tons of unused cargo space. Although DOD did not agree with our finding that faulty planning was the primary cause for the unused cargo space, we noted that there was a significant improvement in the utilization of cargo space on these ships after DOD had increased the planning factor. We therefore recommended that the Secretary of Defense review the load-planning factors being used on the larger C3- and C4-type ammunition vessels. (See Appendix, Section I, Item 243.)

The Subcommittee on Manpower and Civil Service, House Committee on Post Office and Civil Service, was



Air Force C-5 Galaxy unloading
a 48-ton tank in Vietnam.

informed by the Army that it was less costly to use contract labor than civil service labor to load containers at its Bayonne, N.J., terminal. At the request of the Subcommittee, we reviewed the matter and found that the Army had misstated its costs. The cost of contract labor was \$6.40 a measurement-ton instead of \$6.05 as reported to the Subcommittee. On the other hand, the cost of civil service labor was only \$6.12 a measurement-ton instead of the \$8.19 reported by the Army. (See Appendix, Section I, Item 197.)

At the request of six Members of Congress, we reviewed a DOD test of shipping cargo between the United States and Europe using the Great Lakes ports rather than tidal ports. DOD said that it cost \$415,000 more to ship the test cargo through the Great Lakes ports than it would have cost to use the tidal ports. Our review showed, however, that there were errors in the cost data and that the excess was only about \$61,000. We also found areas where improved management could have further changed the test results. (See Appendix, Section I, Item 196.)

We reported to the Secretary of Defense that commercial carriers had frequently been paid for hauling containers from the ports of debarkation to final destination in Germany, although the containers had actually been hauled inland by Army tractors. The demurrage charges on containers hauled by Army equip-

ment were excessive compared with the demurrage charges on containers hauled by commercial carriers. Action should be taken to insure that shipping documents are annotated to preclude overpayments on shipments delivered by military vehicles, and DOD should review the demurrage charges on containers moved with Army equipment. (See Appendix, Section I, Item 131.)

Our survey of the transportation system of the Post Office Department identified areas where improvements would have increased efficiency and would have saved millions of dollars. The Postal Service—successor to the Post Office Department—agreed with many of our observations and promised to take appropriate corrective action. (See Appendix, Section I, Item 244.)

In a survey of DOD's ammunition distribution system, we identified a number of areas that could be improved. As a result of our work, significant changes were made in the system which should save millions of dollars annually. DOD has promised to review other problem areas. (See Appendix, Section I, Item 242.)

Other Reports

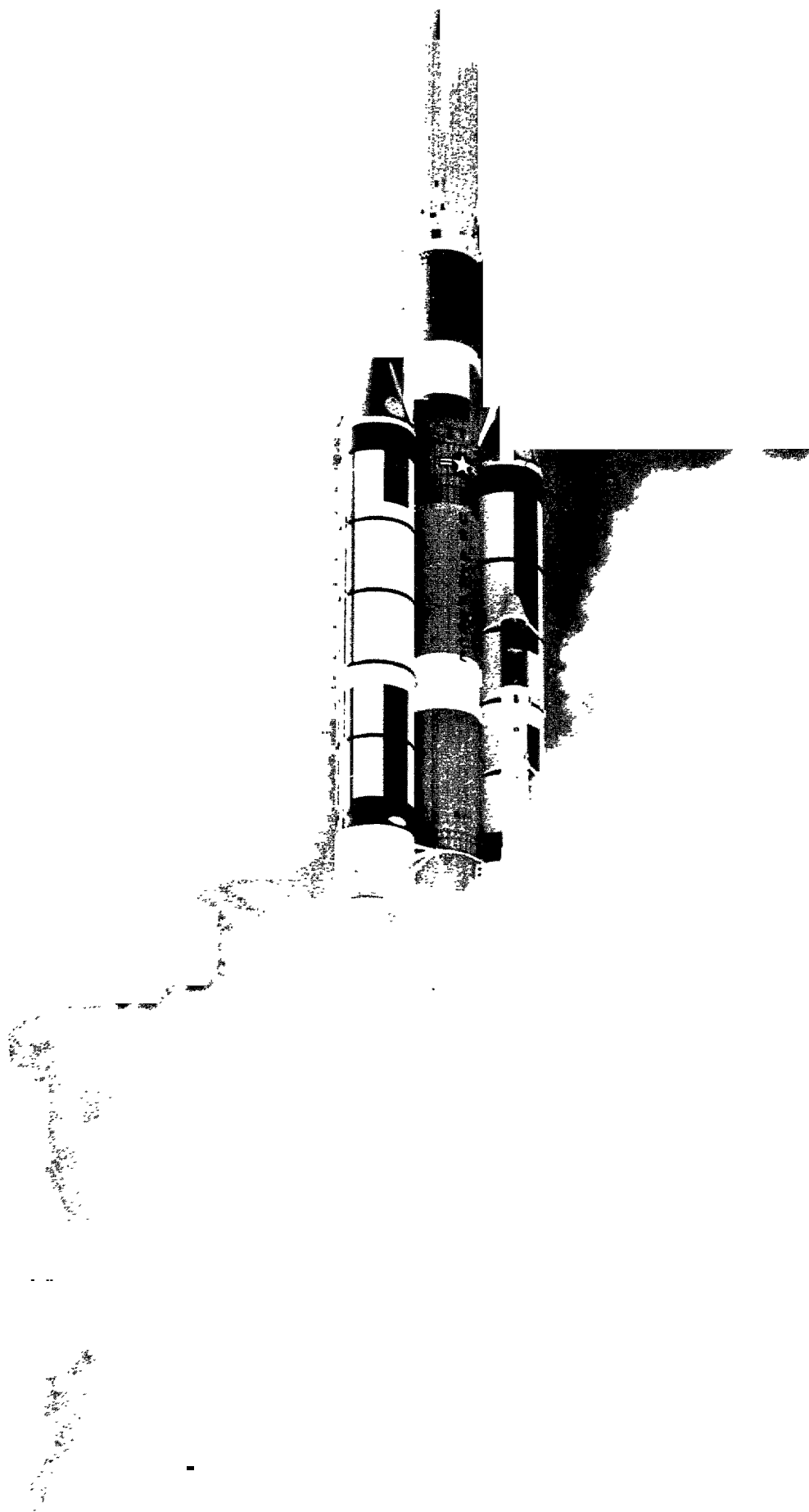
We issued three reports dealing with other aspects of Government operations.

The principal goal of the civil defense program is the development of a nationwide fallout shelter system, complemented by related warning and detection elements. We reported to the Congress that, if the program continues at present levels, up to one-half of the population will be without standard fallout protection in 1975. The Office of Civil Defense (OCD) has not used available information on likely targets when setting priorities for developing fallout shelters and has dispersed available protection unevenly in relation to the location of the population. Moreover, there are no programs, other than research, aimed at protecting

people against chemical or biological weapons, or the direct effects of nuclear explosions. Appropriations for civil defense, however, have decreased, and OCD lacks the authority and funds necessary to finance or subsidize the construction of shelter spaces. DOD said it was aware that the program should be reevaluated and that it expected broad policy decisions to be made on the basis of current administration studies. (See Appendix, Section I, Item 210.)

Another report to the Congress involved the furnishing of launch services by the National Aeronautics and Space Administration (NASA) for the Communications Satellite Corporation (COMSAT). NASA entered into agreements with COMSAT whereby NASA supplies launch services to the latter to place satellites into orbit. Some of these services are provided by the Air Force and billed to COMSAT through NASA. There has been considerable controversy over the amounts and types of Air Force costs to be charged. Because there was an informal agreement not to bill COMSAT on a full user-charge basis, over \$6 million of such costs were not charged. We recommended that all future launch costs actually incurred by the Air Force be charged to COMSAT. The Air Force said it would fully consider our views in new discussions with NASA. (See Appendix, Section I, Item 229.)

Our report to the Director of the Peace Corps stated that the Corps had inadequate management controls over unused transportation tickets and travel advances. Because of slow processing, claims for refunds on unused tickets had been rejected by transportation carriers and the Corps had on hand about \$100,000 worth of unused tickets. Also, personnel were not immediately turning in excess travel advances. As of May 1971, the Corps had uncollected travel advances of \$16,000, of which \$7,000 was applicable to 38 former employees. Corps officials agreed with our findings and said that corrective action was being taken. (See Appendix, Section I, Item 195.)



CHAPTER SEVEN

PROCUREMENT AND SYSTEMS ACQUISITION

Responsibilities

The Procurement and Systems Acquisition Division is responsible for carrying out on a Government-wide basis all audit work involving procurement operations and programs for such major acquisitions as weapon systems in the Department of Defense and systems in the civil departments and agencies of comparable complexity and funding requirements for research, development, and production. This division is supervised by Richard W. Gutmann, Director, and Hassell B. Bell, James H. Hammond, and Harold H. Rubin, Deputy Directors. An organization chart appears on the following page.

Volume of Federal Procurement

Federal Government procurement totaled about \$56.5 billion in fiscal year 1971, including \$15.6 billion for research and development; the Department of Defense and the three military departments expended about two-thirds of this amount.

Procurement Laws

The most costly and complex system acquisition programs in the Federal Government are those for re-

search, development, and production of weapon systems. These programs necessitate allocating a large share of the Federal budget and of the Nation's industrial capacity. It is estimated that the 141 weapon systems in various phases of the acquisition process in fiscal year 1972 will cost more than \$162 billion.

Federal research and development operations (about \$15.6 billion in fiscal year 1971) involve programs which have a far-reaching impact not only in terms of national security but also on the economic and sociological growth of the Nation.

Federal procurement generally is governed by two basic laws, as amended, and their implementing regulations. Defense procurement is subject to the Armed Services Procurement Act and the Armed Services Procurement Regulation. Civil procurement is subject to the Federal Property and Administrative Services Act and the Federal Procurement Regulations.

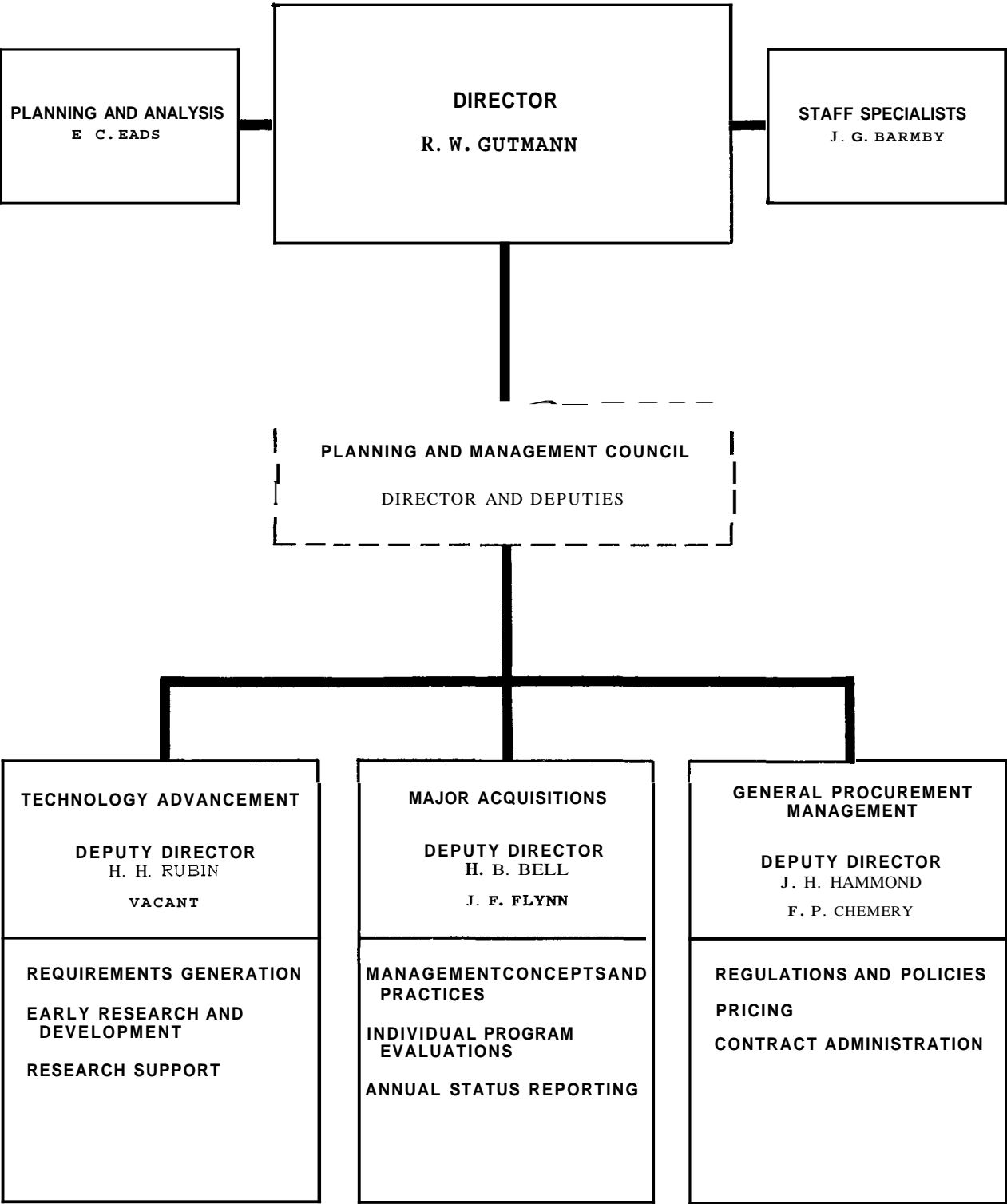
The Truth-in-Negotiations Act (Public Law 87-653), the most far-reaching amendment to the Armed Services Procurement Act, requires that, with certain exceptions, when price competition is lacking, the contractor or subcontractor be required to submit cost or pricing data for procurements over \$100,000 and to certify that the data submitted is accurate, complete, and current. The law also provides that for these procurements the contract contain a clause permitting the Government to recover any significant increase in the price resulting from submitting inaccurate, incomplete, or noncurrent cost or pricing data.

Inasmuch as the law amended the Armed Services Procurement Act, it does not generally apply to civil departments and agencies. The civil departments and agencies, however, have accepted its basic concepts in negotiating and awarding their contracts, and the Federal Procurement Regulations have been revised to include similar provisions.

Audit Reports Issued

We submitted 13 reports to the Congress and 51 reports to committees and Members of Congress on special audits, surveys, and investigations made at their request. The special work dealt with such matters as (1) programs for acquiring the F-14 aircraft, the Tactical Operations System, computers for the Safeguard antiballistic missile system, and close-air-support aircraft, (2) summaries of cost estimates for weapons

PROCUREMENT AND SYSTEMS ACQUISITION DIVISION



JUNE 30, 1972

being acquired, (3) U.S. military research and development expenditures compared with those of the Soviet Union, (4) claims submitted to the Navy by shipbuilding contractors and the cost controls maintained by the contractors, and (5) practices in procuring specific goods or services and administering specific contracts.

We also submitted 28 reports to department or agency officials on procurement, contract administration, and related matters.

A list of these reports is included in Section III of the Appendix.

In addition to these more formal reports, we also prepared and furnished to congressional committees, individual weapon system reports covering 77 major weapon systems. These system reports contained timely, up-to-date information on particular weapon systems and were prepared specifically for use by the Senate and House Armed Services and Appropriations Committees in their authorization and appropriation hearings and to meet any other needs of their staffs.

Each of these reports contained our assessment of the current status of the individual weapon system as to its cost, schedule for development, production, deployment, and technical performance. In addition, other areas were reviewed on many systems such as cost estimating, cost effectiveness, management of changes, testing, and performance measurement. The reports contained a specific section highlighting matters of interest and concern to the Committees.

These reports, issued early in calendar year 1972, were used extensively by the Appropriations and Armed Services Committees of both Houses. For example, the published fiscal year 1973 authorization and appropriation hearings showed that many of the issues raised during hearings on the weapons we reported on, were drawn largely from the content of our reports.

A listing of the weapon systems reported upon follows.

ARMY (21)

Aircraft:

Cheyenne helicopter
HLH helicopter
UTTAS helicopter

Missiles:

Lance
Improved Hawk
Sam-D
Dragon
Chaparral/Vulcan

Safeguard
Shillelagh
TOW

Vehicles — Ordnance:

scout
MICV — Mechanized Infantry Combat Vehicle
Bushmaster
Gama Goat
M60A2 Tank
Howitzer
Sheridan Tank
MBT-70 Tank

Other:

Tacfire Control Support System
NAVCON Air Control System

NAVY (39)

Aircraft:

EA-6B
P-3c
E-2C
LAMPS
Harrier
CH-53E
S-3A
F-14
A-7E

Sonar System:

AN/BQQ-2
AN/SQS-26
AN/SQQ-23
AN/BQS-13

Missiles:

Sparrow E
Sparrow F
Poseidon
Condor
Standard Arm
Standard
Sidewinder
Phoenix
Aegis
Harpoon

Ordnance:

Mark-48 torpedo

Ships:

SSN-688 submarine
SSN-685 submarine
SSN-637 submarine
Deep Submergence Rescue Vehicle
CVAN-68
CVAN-69

DE-1052
DLG Modernization
DLGN-38
LHA
DD-963

Other:

AMTRAC Amphibious Assault Vehicle
DIFAR Submarine Detection Device
VAST-335 Avionic Test Systems
VAST-247 Avionic Test Systems

AIR FORCE (16)

Aircraft:

F-5E
AX
B-1
F-15
A-7D
F-111
C-5A

Missiles:

Titan III
SCAD Subsonic Cruise Armed Decoy
SRAM Short Range Attack Missile
Minuteman II/III
Maverick

Other:

AWACS Airborne Warning and Central System
OTH-B Over-the Horizon Backscatter Radar
407-L Tactical Air Communication System
485-L Tactical Air Communication System

DEFENSE COMMUNICATION AGENCY (1)

DSCS Defense Satellite Communications System

ment of Defense with appraisals of those factors most closely related to effective performance in procuring major weapons. In our most recent such appraisal, on which a report was submitted to the Congress in July 1972, we considered programs that the Office of the Secretary of Defense and the military services instituted to improve management of the acquisition process. Our overall assessment was that, since our prior report, meaningful improvements had been made. Some of the observations included in the report follow.

Weapon system development programs had changed considerably. This could be traced to early requirements planning and to inconsistent program direction caused by internal and external influences. There was a question as to whether, in the conceptual stage, sufficient consideration had been given to establishing the impact of one weapon system proposal on other programs, on the total force structure of a military service or the Department, or on the possible ceiling on dollar resources. Some weapon systems appeared to have been conceived and justified as independent systems. Once initiated, programs changed because the cost of the item itself increased or because funds were needed for another more urgent program.

Weapon system acquisition problems were often aggravated by the cumbersome organizational structure. Decisions related to systems selected for program management appeared to be based primarily on the total expected cost rather than on degree of technical risk, a need for aggressive management for that system, or the desirability of grouping equipments into systems classed as major acquisitions because of system interfaces and integration.

Managers differed in how they organized and operated their projects. The most significant difference was the extent of their actual authority and decisionmaking powers. There was evidence of improvements in the project managers' status and training — they now can progress further in their operating environments. Although it is impracticable to create a model project manager structure that will fit automatically every major acquisition, the management structure for each acquisition should be tailored to that particular program.

Considerable cost growth in acquiring weapon systems was directly attributed to unrealistic early cost estimates.

The services varied greatly in their testing and evaluation procedures and associated terminology.

Summary of Findings and Recommendations

Our reports contain many recommendations for improvement in agency policies and procedures. Agency officials have been generally receptive to them and, in most cases, express agreement with our findings and their intent to take corrective actions. It is our practice to conduct followup reviews, after sufficient time has elapsed, to evaluate such actions.

Acquisition of Major Weapon Systems

We continually review the weapon system acquisition process to provide the Congress and the Depart-

Test programs contained many approved deviations, substitutions, waivers, and examples of special circumstances. We concluded that there was a need for better understanding of the basic principles and for better application of testing in the Department.

The estimated cost of 77 weapon systems increased by about \$28.7 billion (31 percent). This increase represented the difference between the original estimates and the current estimates of total program cost. This increase was down from the previous year's 40-percent increase reported on 61 systems and could be attributed primarily to (1) the addition of several new systems to our review, which reduced the program-planning base on which the percentage computation was made and (2) the significant number of quantity decreases on many of the 77 systems, which was of much more concern to us. The effect of that kind of change is obvious, but perhaps far more significant, is the impact of these quantity reductions on interrelated weapon programs, all of which are part of an overall plan.

In our report, we recommended to the Secretary of Defense that he:

Emphasize (1) a continuing rigorous analysis of the need for new weapon systems, (2) a careful analysis of the proposed needs' impact on the manpower and dollar resources of the total defense force and the implication to the plans for the usefulness of the equipment already in inventory, and (3) the inclusion throughout of a properly structured process which makes trade-offs between various ways of fulfilling a function.

Reexamine the weapon systems selected for, and retained under, project management and spell out, case by case, a project manager's duties.

Develop and implement Department-wide guidance for consistent and effective cost-estimating procedures and practices, particularly (1) an adequate data base of readily retrievable cost data, (2) a uniform treatment of inflation, (3) an effective independent review of cost estimates, (4) more complete documentation of cost estimates, and (5) dependable program definitions.

Develop and implement Department-wide guidance to provide that (1) appropriate testing and evaluation are completed before key decisions are made and (2) adequate controls are set over granting any waivers from required testing and evaluation.

Reassess the criteria for designating weapon sys-

tems for selected acquisition reporting to expand the system.

The Department stated that it agreed in general with our findings, conclusions, and recommendations and that it was taking corrective actions. (See Appendix, Section I, Item 132.)

In addition to our continuing appraisals of the weapon system acquisition process as a whole, we make continuing studies in depth of specific functions performed in the acquisition process. Such studies in progress at the close of the fiscal year included procedures and practices in (1) cost estimating, (2) testing and evaluation of test results, and (3) conducting cost-effectiveness studies.

Research and Development

Space Shuttle

At the request of Senator Walter F. Mondale, we reviewed the cost-benefit analysis used by the National Aeronautics and Space Administration in support of the justification for the Space Shuttle Program.

NASA proposed that a space shuttle be developed for space transportation needs for NASA, DOD, and other users in the 1980s. The Space Shuttle Program's primary objective is to provide a new space transportation capability that will (1) substantially reduce the cost of space operations and (2) provide a future capability designed to support a wide range of scientific, defense, and commercial uses.

The space shuttle will be the first space vehicle that can be used repeatedly. The booster rockets will detach at an altitude of about 25 miles and descend into the ocean to be recovered and reused. The orbiter, with a crew of four, will continue into low earth orbit and fly back to earth for an airplane-like landing after completing its mission.

We did not independently analyze cost-benefits of the Space Shuttle Program. We worked with estimates from Mathematica, Incorporated, the contractor who made the analysis for NASA. The estimates covered two representative configurations of the space shuttle—one a reusable solid booster shuttle and the other a reusable liquid booster shuttle.

The two configurations were economically justified in terms of the 10-percent investment criterion proposed by Mathematica as the basis for evaluating the Space Shuttle Program. This justification assumed that these configurations would be developed, procured, and operated as presented to us by Mathematica. We identi-

fied the points at which the cost increases over the Mathematica estimates for the two configurations would no longer realize the savings required to meet the 10-percent investment criterion. (See Appendix, Section I, Item 133.)

Close Air Support

Congress was concerned that three different aircraft being considered for the close-air-support mission—the Army's AH-56.4 Cheyenne helicopter, the Marine Corps' Harrier, and the Air Force's A-X—might duplicate or substantially overlap in capabilities. We found that the need for a new close-air-support aircraft could be argued more convincingly if the services agreed on available inventory aircraft (their numbers, accuracy, payloads, response times, and other properties) and if a gap could be shown between these resources and combined services' needs. Our report included suggestions to the Secretary of Defense and summarized major issues concerning the three aircraft which the Committees on Appropriations and Armed Services might wish to pursue with the Department of Defense. (See Appendix, Section I, Item 134.)

Avionics Equipment

Military requirements for the light observation helicopter limited the weight of the avionics equipment to 100 pounds. However, Army officials decided to use existing equipment which was about 55 percent heavier than that allowed. The Army did not contract for developing lightweight avionics until 1966, about 4 years after contracting for the helicopter development. This delay forced the avionics development cycle to be compressed and, in our opinion, was the primary cause of development and production problems. We believe that this inadequate planning was caused by the Army's lack of a long-range avionics planning system to promptly identify avionics subsystems needed for its aircraft. Furthermore, the Assistant Chief of Staff for Force Development directed the avionics to be installed in seven additional Army aircraft systems and in all Army aircraft produced after fiscal year 1969, even though the avionics had not been successfully tested in the helicopter for which they had been designed.

We made several recommendations to the Secretary of the Army and the Secretary of Defense designed to improve planning for avionics development programs. We also suggested that the Congress might wish to be informed by the Secretary of Defense when critical

subsystems still in development were committed to additional systems. (See Appendix, Section I, Item 135.)

Potting Compounds

Potting compounds, which are installed as liquids, harden around electrical connections and other components to protect them from contaminants. After prolonged exposure to high heat and humidity, some potting compounds revert to liquids. This reversion caused a potting compound used in about 775 active F-4 aircraft to be replaced at a cost of about \$39 million. About 1,575 other active F-4s contained another potting compound susceptible to failure by reversion. Additional millions of dollars have been or may be spent to replace compounds used in other weapon systems. We attributed the use of these faulty potting compounds to a lack of Government testing and evaluation. The compounds were newly developed and were not covered by military specifications. Furthermore, the Department was unable to quickly disseminate information to all users. We made several recommendations to the Secretary of Defense regarding testing of new and untried materials and equipment and disseminating information among the services on deficiencies disclosed. (See Appendix, Section I, Item 136.)

Reverted potting compound.



Research Facilities—Fort Detrick, Md.

The President's decision to eliminate the country's biological warfare program made the Army's research facilities at Fort Detrick, Md., available for civil uses. Fort Detrick's unique laboratories and highly skilled personnel represent a much-recognized potential benefit to the Nation. Although the Army made substantial efforts to realize this potential, i.e., to convert these research facilities to civil, scientific, or medical purposes and to retain as many of the 1,800 persons employed at Fort Detrick as possible, it encountered problems which one agency alone could not control. Fewer than 600 employees—primarily support personnel—remained at the time of our review. We recommended to the Director, Office of Management and Budget, that he coordinate the efforts by defense and civil agencies to convert and transfer national resources. (See Appendix, Section I, Item 137.)

Management of Procurement Programs

Negotiation of Contract Prices

One of our reports summarized 23 reports issued to Department of Defense officials and contractors during fiscal year 1971. In the 23 reports, we reviewed contracts totaling \$217 million awarded by 13 DOD procurement activities. The contract prices were about \$8.7 million higher than indicated by cost or pricing data available to the contractors during negotiations. Overpricing was caused by the contractors' failure to submit significant cost data which became available after they had submitted their proposals and the contracting officers' failure to obtain all significant data and to have it reviewed and adequately evaluated.

Because the contracts examined were relatively few in number and low in value and because they had been selected on the basis of potential findings, we could not draw general conclusions about the overall effectiveness of management responsibility to negotiate reasonable prices. However, our findings indicated that the Department should pay continued attention to the personnel performing this function.

In individual reports to agency officials, we recommended that they determine the extent to which the Government was legally entitled to price adjustments under the contracts. About \$421,000 had been collected through June 30, 1972, at which time additional claims were being negotiated and settled. (See Appendix, Section I, Item 150.)

In another report we pointed out that various Government agencies in many instances allowed not-for-profit organizations (which pay no Federal income taxes) to charge fees under research contracts at approximately the same rates as profitmaking organizations (which pay Federal income taxes). We proposed that the Director, Office of Management and Budget, head an interagency study leading to a Government-wide policy on fee negotiation which considers the contractor's tax posture. (See Appendix, Section I, Item 151.)

Administration of Contracts

Five of our reports to the Congress dealt with administering contracts: four concerned the validity of payments to the contractor for C-5A aircraft and one concerned the Navy's efforts to avoid or reduce the factors which in recent years gave rise to contractors' claims for substantial price increases under shipbuilding contracts.

The legislation authorizing funds for the C-5A aircraft program for fiscal years 1971 and 1972 provided that the contractor be paid through a special bank account and that our Office audit the payments and submit quarterly reports to the Congress. During the year we submitted four reports to the Congress on payments made since the special bank account was set up in June 1971 through March 31, 1972. We found no payments that were contrary to the applicable laws. However, we questioned and are following up on certain practices concerning the contractor's manpower utilization, overhead allocation, and withdrawal of retirement funds before they were needed. (See Appendix, Section I, Item 144.)

In the past few years, the Navy has received shipbuilders' claims for price increases totaling about \$1 billion. The shipbuilders asserted that the Government owed them more than the contract price because the Navy failed to fulfill its part of the contract terms. In their claims shipbuilders contended that the Navy:

Did not provide adequate specifications.

Was late in furnishing the equipment and information it agreed to provide or did not provide them in a usable condition.

Increased quality assurance requirements beyond what could reasonably be anticipated.

Made verbal requests for changes in a ship for which it did not pay the contractor.

Certain shipbuilders also claimed that plans purchased from the lead yard—the shipbuilder that built



Accounting machines and related **PCAM** equipment that perform data processing steps such as tabulating, sorting, merging, and matching of cards.

the first ship of the class—were defective and/or not available when needed and that, because the Navy intended that such plans be purchased and used, the Navy shared responsibility for problems created by these plans.

The Navy has undertaken the Shipbuilding and Conversion Improvement Program, which includes several tasks intended to eliminate or minimize claims for price increases under future shipbuilding contracts. We reviewed these tasks and other steps the Navy was taking and concluded that these actions held considerable promise for minimizing the claims problem. We suggested that the Congress, in considering requests for shipbuilding authorizations and funds, inquire into the specific claims prevention measures which the Navy plans to apply in construction programs. (See Appendix, Section I, Item 145.)

Renting Office Equipment

We also prepared a report for the Congress on renting punched-card accounting machine equipment and another one on renting office copiers.

The General Services Administration is responsible for coordinating and providing for the economic and

efficient purchase, lease, and maintenance of the Government's automatic data processing equipment, including punched-card accounting machine equipment. Such equipment can be purchased or rented from leasing companies and manufacturers. Leasing companies purchase the equipment from the leading manufacturer—International Business Machines Corporation—and then lease it at rates lower than IBM's rates. The Government could save substantially by competitively renting such equipment, but GSA's efforts to induce agencies to use leasing companies as a competitive source for the equipment have had limited success.

We recommended that GSA determine whether additional measures were necessary to obtain maximum competition in renting this kind of equipment. GS-4 agreed and said it was taking additional action including meeting with agency officials. (See Appendix, Section I, Item 158.)

GSA awards indefinite quantity rental contracts to office copier suppliers: agencies rent the copiers by placing orders under the contracts. Each agency is responsible for selecting the most economical copiers to meet its needs from a variety of makes, models, and

rental plans. We made a review of the copiers offered by a major supplier to determine whether the agencies were in fact selecting the most economical models or rental plans offered by that supplier.

We reviewed a random sample of the copiers rented from the major supplier and found that about 30 percent of the 14,500 copiers rented during the test period were not the most economical. Had the agencies selected the most economical models or rental plans, they would have saved \$510,000 in rental costs and \$1.4 million in labor costs.

Some agencies did not have the information needed to compare the operating costs of the various copiers available under GSA contracts. Suppliers were not required to include such information in their catalogs describing available copiers. We recommended that GSA ask suppliers of office copiers to include specific cost data in their catalogs distributed to agencies to assist them in properly selecting copiers. GSA agreed and, in its solicitation for copiers to be supplied in 1973, requested that suppliers include such information in their catalogs. (See Appendix, Section I, Item 159.)

Assistance to the Commission on Government Procurement

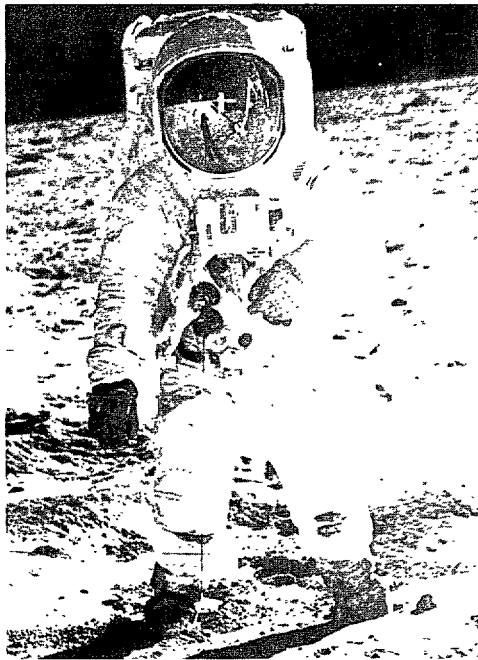
The Commission on Government Procurement was established by Public Law 91-129, approved November 26, 1969, to make a comprehensive study of Federal procurement statutes, policies, and practices.

The Commission is composed of 12 members, one of which by law is the Comptroller General. A report to the Congress on the study is to be submitted by the Commission in December 1972.

Because of the Comptroller General's membership on the Commission and our considerable experience with Federal procurement law and audits of Government agency procurement operations, we provided a considerable amount of assistance to the Commission during its study. Twelve of our professional staff members were assigned to work with the Commission's staff for its various study groups for a period of a year or longer. In addition, our Office of the General Counsel from time to time provided legal assistance through the Commission's Legal Network System.

Our professional staff gave briefings to several of the study groups on subjects being considered by the Commission and provided the Commission staff with copies of a large number of our audit reports and decisions of the Comptroller General relating to procurement. In some cases, we also made the supporting workpapers available. Direct assistance was also provided by our staffs working on major systems acquisitions and on professional service contracts and contributing suggestions on the presentations developed by individual study groups for use in briefing the Commission staff and the Commissioners on the results of their studies.

Other help was provided by our Legislative Digest Section in validating for the study groups and Commission staff the numerous citations made in the drafts of study group and special reports.



The Federal Government is the Nation's biggest employer and one of its finest. As these photos illustrate, Federal employaes perform almost every kind of work found in private employment as well as some jobs peculiar to Government.



CHAPTER EIGHT

FEDERAL PERSONNEL AND
COMPENSATION

Responsibilities

During fiscal year 1972 programs and activities relating to Federal personnel directly affected over 8 million Government employees and retirees and their families. Of this number, about 2.8 million were civilian employees, 3.4 million were military personnel (including 1 million reservists and National Guardsmen), and over 2.2 million were civil service and military retirees. Exclusive of about \$3.5 billion of civil service retiree pension payments made from annuity funds, the Government's direct costs for salaries, wages, and military retirement benefits totaled over \$56 billion, or about one-fourth of the national budget.

The Federal Personnel and Compensation Division carries out GAO's audit work relating to the programs and activities affecting these personnel. This division is under the supervision of Thomas D. Morris, Acting Director, and Forrest R. Browne, Deputy Director. An organization chart appears on the following page.

Audit responsibilities of this division cover a wide range of programs, activities, and practices employed by the Government to manage and compensate the Federal work force. These include, but are not limited to, employee training and education; systems and techniques used in personnel management; Federal pay, fringe benefit, and retirement systems; and policies and practices for acquiring, utilizing, and retaining the work force.

Description of Work

GAO has, through the years, audited programs and activities relating to management of the Federal work force. However, specialization by staff members in these areas only began in 1966 when a separate group was established in the former Defense Division to review manpower management programs and activities in the Department of Defense. Since this group continued in operation until the April 1972 reorganization of GAO (see Chapter One), the significant findings and recommendations discussed in the remaining sections of this chapter relate principally to manpower management in DOD.

When the Federal Personnel and Compensation Division was established in April 1972, it was given broad responsibilities for reviewing manpower management activities 'throughout the Government. It is expected that this action will lead to the division's performing a significantly increased number of Government-wide reviews of programs and activities affecting the total Federal work force.

For example, we are currently reviewing Federal pay comparability. In this review we are studying the methods used by the Government to fix the salaries of its civilian employees at rates comparable to those paid by private industry. We also are reviewing the policies, procedures, and practice⁵ used throughout the Government in reductions in force of civilian employees.

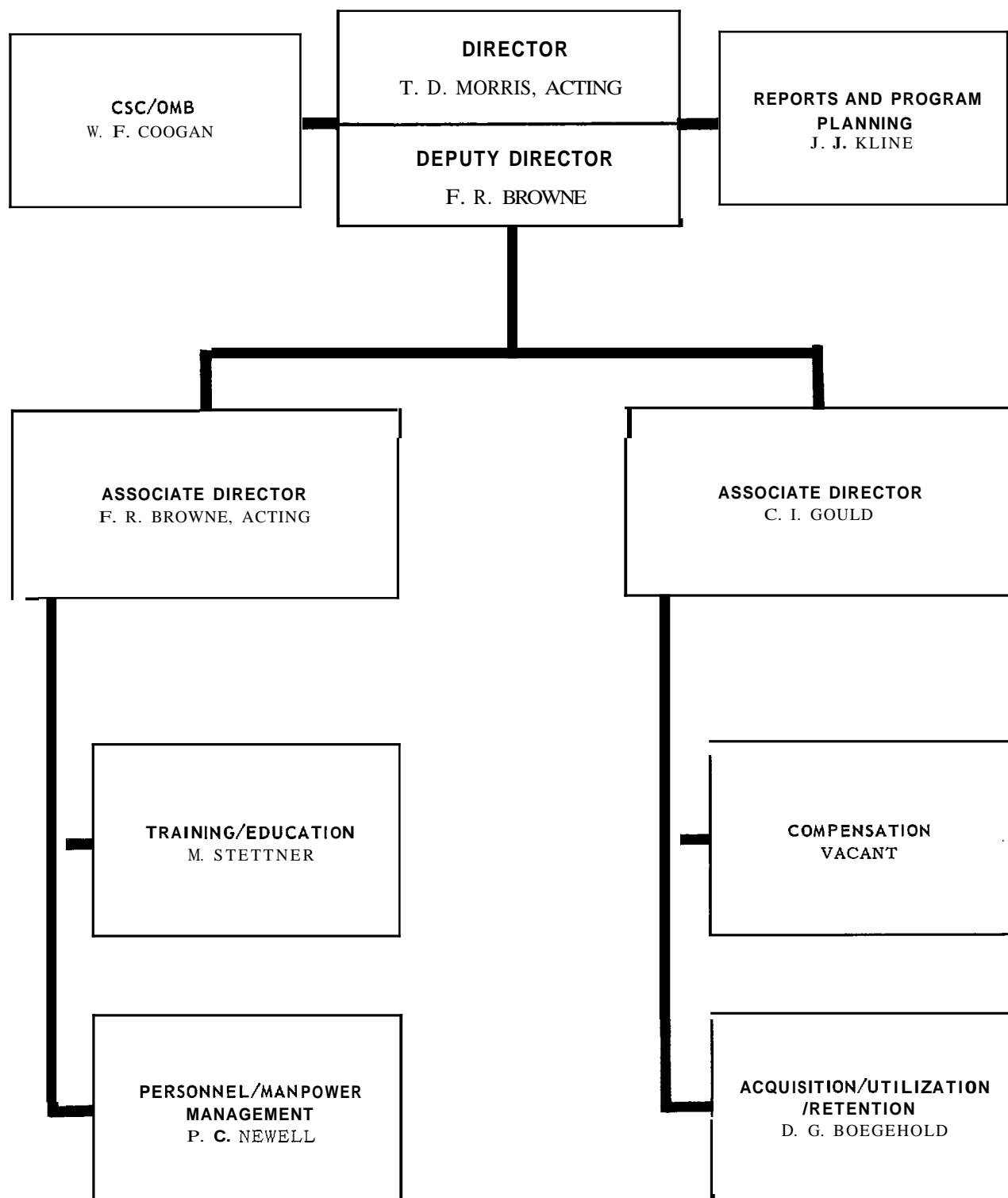
Audit Reports Issued

During the year we issued 27 reports on our audits: eight to the Congress, 10 to committees or Members of Congress on special investigations made at their request, and nine to heads of departments or agencies. Most of the reports related to such functional areas as training and education, manpower requirements and staffing, and social action programs for Federal employees.

Major Findings and
Recommendations

Our reviews frequently result in findings indicating a need for improving manpower management and controls, and recommendations for improvement are included in reports on such findings. In commenting

FEDERAL PERSONNEL AND COMPENSATION DIVISION



JUNE 30, 1972

on our reports, agency officials generally have been responsive and have indicated agreement with our findings and an intention to take corrective actions.

Major findings and recommendations discussed in reports issued during the year are summarized in the following sections of this chapter.

Training and Education

We issued two reports on training and education activities in the Department of Defense.

About 1,000 civilian employees of the Department participated during fiscal year 1971 in its graduate education programs at colleges and universities. The Government's cost for those employees attending non-Federal institutions was approximately \$13 million. We reported that the objectives of the programs were not being achieved as effectively as possible, primarily, because of management's failure to fully and effectively implement existing Defense and military department regulations and, secondarily, because of deficiencies in those regulations. We recommended several means whereby controls over the programs could be improved to insure more effective and timely accomplishment of objectives. The Department and the Civil Service Commission agreed with most of our recommendations, and corrective actions have been initiated in those areas where needed. (See Appendix, Section I, Item 228.)

Department of Defense directives provide that training facilities of one military service be utilized to the maximum extent in meeting training requirements of other services. We reported that the Air Force had recently discontinued using six common skills training courses offered by other services and had established similar courses of its own, despite the fact that (1) the training previously provided by the other services was considered to be adequate and (2) establishing separate courses would result in one-time costs of about \$2 million and in annual recurring costs of about \$23,000. Moreover, the Air Force was considering establishing additional courses duplicating training available from other services. We recommended that the Secretary of Defense direct the Air Force to advise him of the specifics and rationale before establishing new training courses which duplicate those provided by other military departments. (See Appendix, Section I, Item 227.)

Manpower Requirements and Staffing

Three reports were issued to the Congress on various

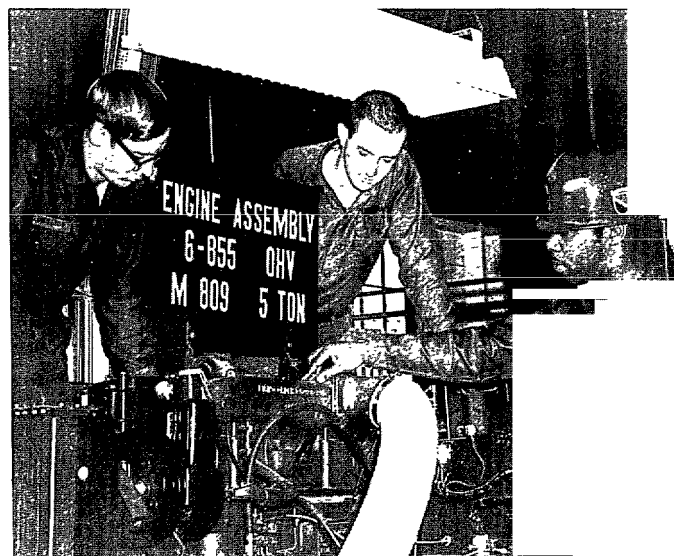
aspects of military manpower requirements and staffing.

One report dealt with the Department of Defense policy of using civilians in positions not requiring military personnel. We reported that military personnel were being used extensively in civilian-type positions. Installation commanders were reluctant to use civilians in certain positions because of budgetary restrictions and civilian employment ceilings. In our opinion, the Department's policy was not being fully applied because the military services had not determined the number and type of positions which should be filled by military personnel and which by civilians. We recommended that these determinations be made and formalized in specific guidelines for use by installations in making personnel assignments. We also recommended that, if the Congress wished early action on the substitution of civilians for military personnel in positions which could be civilianized, the Department should be authorized to transfer funds from the fiscal year 1973 military personnel appropriations to the appropriations from which civilians are compensated. (See Appendix, Section I, Item 212.)

Another report concerned the military services' use of medical personnel. We pointed out that (1) there was no uniform method of establishing manpower requirements for medical personnel for the three services, (2) imbalances existed in the number of professional personnel authorized and assigned in each service and in certain medical specialties, and (3) medical officers were being used in staff and administrative positions where their professional abilities were seldom used. Retention of medical personnel is a serious problem according to the military departments; yet, no retention goals had been set for the number and type of professional personnel needed and no career programs had been established. The Department of Defense generally agreed with our findings and informed us that it had taken action to implement many of our recommendations. (See Appendix, Section I, Item 211.)

In the third report we pointed out that, at a cost of about \$6.2 million, over 2,800 Navy enlisted men were assigned to crews for 43 ships under construction during the 12 months ended July 31, 1970. The Navy made these assignments without having first evaluated work requirements to determine the number and type of personnel required. Also, some crewmembers were sent to construction sites before they were needed and were assigned tasks that were the responsibility of other Navy organizations. The Navy concurred in our recommendations that the composition and duration of such crew

Technical training gets the soldier
off to a good start on a career.



assignments needed to be evaluated and that only those personnel actually needed should be assigned to the crews, and then only for the period that their services are required. (See Appendix, Section I, Item 214.)

Social Action Programs for Federal Employees

We submitted one report to the Congress, another to a congressional committee, and a third to the Secretary of Defense on the results of our reviews of social action programs affecting Federal employees.

It is the policy of the Federal Government to hire the economically and educationally disadvantaged. However, applicants for Federal employment were not required to disclose information on family size and income to show their status as disadvantaged and the Civil Service Commission believed that requiring submission of such information would be an unwarranted invasion of privacy. The Commission also took the position that it could not legally limit entry into the competitive service on such nonmerit factors as those contained in the Government's definition of a disadvantaged person. We stated that specific legislation would be required if the Congress wanted the Commission to have authority (1) to obtain and consider data needed to identify applicants as disadvantaged persons and (2) to afford preference to disadvantaged persons seeking employment. (See Appendix, Section I, Item 75.)

We reported that there was no Defense-wide alcoholism prevention and control program for military personnel and that there were no specific guidelines for treating military alcoholics. As a result, treatment given these personnel at many bases was limited. Negative attitudes and punitive statutes and regulations had resulted in hiding the alcoholism problem, and there was a wide range of views among military personnel as to the severity of the problem. We estimated that, if the incidence of alcoholism is the same in the military services as it is estimated to be in the civilian work force, potential annual gross savings of as much as \$120 million—as well as humanitarian benefits—could be realized from establishing a comprehensive alcoholism control program for military personnel. We recommended that the Secretary of Defense establish such a program. Information provided to us by the Department indicated that affirmative action was being taken on our recommendation. (See Appendix, Section I, Item 209.)

In 1970 the Department of Defense began operating

a computerized employment service, known as the Referral Program, for military retirees. About 24,000 retirees registered in the program during its first year of operation, but only 212 were placed in jobs. Identifiable costs for the first year of operation were approximately \$390,000, or about \$1,800 for each placement. We recommended that the Secretary of Defense consider discontinuing the Referral Program because it had been costly, had shown limited accomplishments, and had duplicated other employment assistance available to military retirees on a preferential basis. The Department did not agree with our conclusions. However, in our opinion, the additional information included in the Department's comments on our report did not show that the program should be continued. (See Appendix, Section I, Item 208.)

Other Findings

Reports were also issued on (1) management of the use of Government employees to produce products and services, (2) recruitment and discharge of military personnel, and (3) a joint United States-Republic of Vietnam program to improve the morale and reduce the desertion rate of Vietnamese servicemen.

The Department of Defense spends about \$6.3 billion annually for commercial and industrial products and services. About 82 percent of these expenditures are for products and services produced by Government employees. The Office of Management and Budget requires that the products and services be obtained from private contractors unless in-house performance is necessitated by economy, military readiness, or certain other exceptions. A review of each in-house activity is required at least once every 3 years to insure that continued in-house performance is justified, and cost studies should be made when in-house performance is based on economy. We reported that the military department reviews were not effective because they were not performed in the manner and within the time frame required. Also, Army installations began some new in-house activities without first obtaining required department-level approval. The Department informed us that it had initiated corrective actions on the matters we reported. (See Appendix, Section I, Item 213.)

In fiscal year 1970 the Marine Corps began a program to increase professionalism in the Corps. The program was to be accomplished, in part, by enlisting only those men who met the highest standards and by tightening the requirements for successful completion



Headquarters, Civil Service Commission, Washington, D.C.

of recruit training. Before the program was begun, no study was made on how it should be carried out and no guidance was provided to recruiting and training installations on how they should implement the program. This led to a sharp increase in the number of male recruits who were discharged during training after being found unsuitable for service. The unsuitability discharge rate had ranged from 1 percent to 4 percent during the preceding 12 years and rose to over 20 percent after the program began. More than 11,100 men who entered the Corps in a 10-month period during fiscal years 1970 and 1971 received unsuitability discharges, and the Government spent over \$15.3 million to recruit, train, and return these men to their homes. The Navy generally agreed with our findings and informed us that, after our review was completed, there was a marked reduction in the unsuitability discharge rate. (See Appendix, Section I, Item 215.)

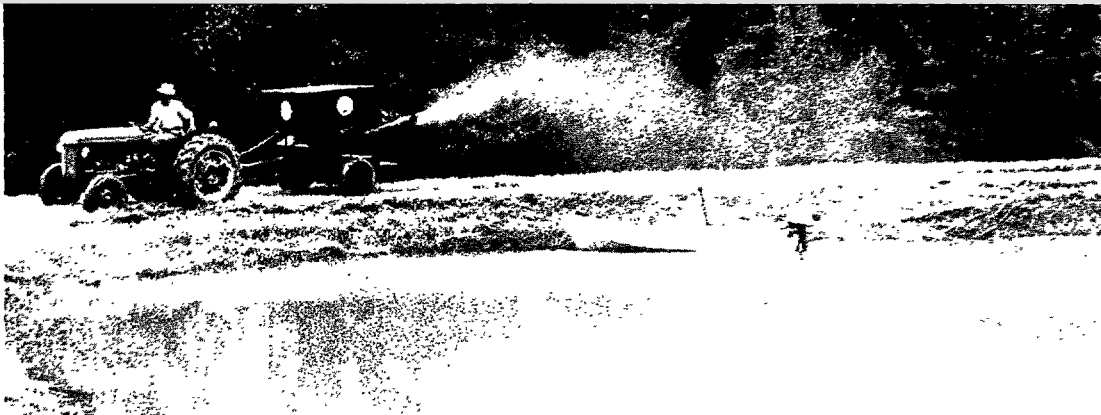
To improve the morale and reduce the desertion rate of members of the Republic of Vietnam Armed Forces,

the United States Government and the Vietnamese Government are participating in a program to construct living quarters for the families of Vietnamese service members. U.S. participation in the program is expected to continue through 1975 at a cost of about \$37 million. We reported to the Congress that American military officials were unable to provide us with data showing whether progress had been made in achieving program objectives. The program had suffered from a lack of adequate planning and from fragmented and ineffective management, and these circumstances contributed to a number of problems affecting overall program performance. Moreover, the program had not been reviewed by any Defense or military department internal review group, and we were informed by U.S. officials that the Vietnamese lacked interest in the program. The Department informed us that it was initiating corrective actions in response to our findings and recommendations. (See Appendix, Section I, Item 115.)

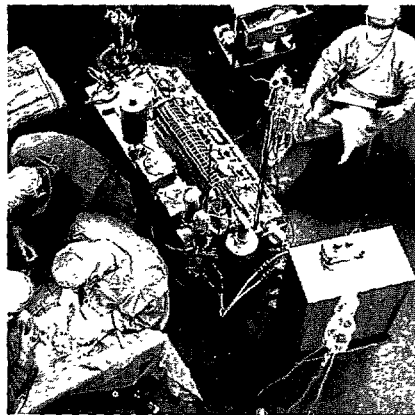
- ① Government Employees Health Program
Department of Defense
- ② Economic Development Program (catfish farm)
Office of Economic Opportunity
- ③ Surgeon-scientist team at the
National Heart and Lung Institute
- ④ Atmospheric research
National Science Foundation
- ⑤ Concentrated Employment Program (welding class)
Department of Labor



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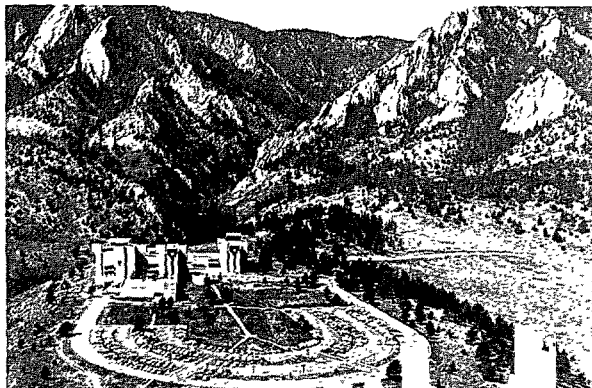
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and the actions taken or comments made by the departments or agencies on the reported recommendations and suggestions for improving their operations. More detailed descriptions of these findings and recommendations and descriptions of those included in other reports prepared by the division are contained in Section I of the Appendix.

Conferences on Evaluation of Program Results

GAO divisions engaged in auditing Government programs have placed increased emphasis on evaluating program results by examining into accomplishments, benefits, or achievements and considering the extent to which program objectives are being met. As an aid in making these evaluations, GAO initiated a series of conferences in cooperation with the National Academy of Public Administration to provide participants with beneficial insights into evaluation techniques.

Two of these conferences were held during the fiscal year. Both conferences related to areas of responsibility of the Manpower and Welfare Division. One focused on current problems, methods, and processes of evaluating the effectiveness of welfare programs; the other dealt with the evaluation of education programs.

Contributing to the success of these conferences, which were attended by the Comptroller General and other top G.40 officials and employees, were Federal and State officials, educators, researchers, and consultants who have studied and dealt with the problems in their respective fields.

Department of Health, Education, and Welfare

Fifty-one reports were submitted to the Congress on reviews of Department of Health, Education, and Welfare (HEW) operations. Of these, 15 were submitted to the Congress and 36 were submitted to committees or Members of Congress. In addition, seven reports were issued to Department or agency officials.

Health Services and Mental Health Administration Activities

In one report to the Congress, we commented on the limited use of Federal programs, authorized by a 1966

CHAPTER NINE

MANPOWER, HEALTH, EDUCATION, AND INCOME SECURITY

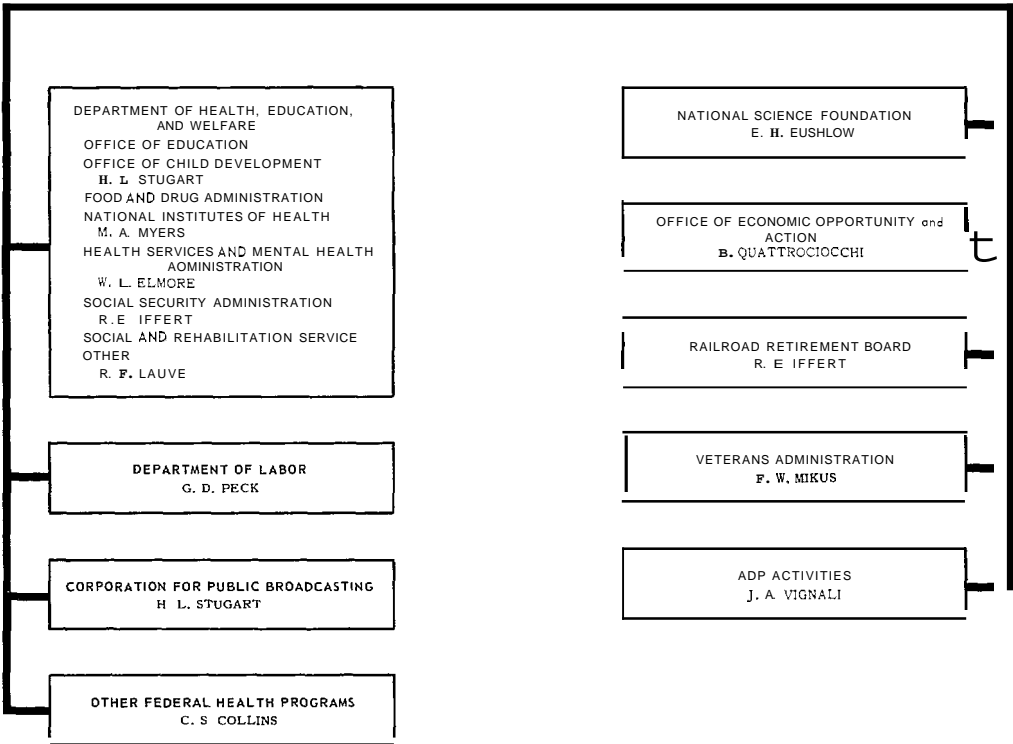
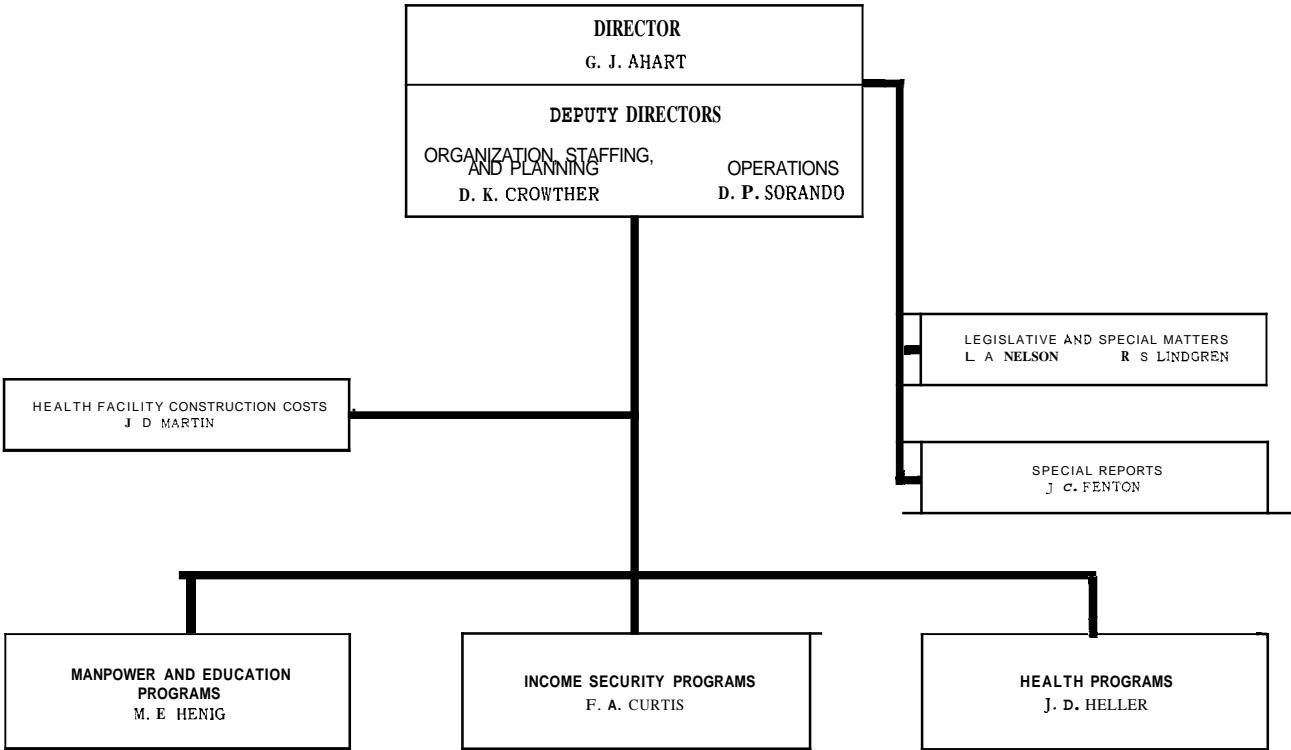
Responsibilities

The Manpower and Welfare Division has primary responsibility for carrying out audits and reviews of the Federal Government's manpower, health, education, and income security operations and programs. These operations and programs are administered principally by the Department of Health, Education, and Welfare; the Department of Labor; the National Science Foundation; the Office of Economic Opportunity; and the Veterans Administration. This division is under the supervision of Gregory J. Ahart, Director, and Dean K. Crowther and David P. Sorando, Deputy Directors. An organization chart of this division appears on the following page.

During fiscal year 1972, 109 reports were submitted to the Congress on audits or reviews made by or under the direction of the division. Of these reports, 35 were submitted to the Congress and 74 were submitted to committees or Members of Congress on reviews made in response to their specific requests. In addition, 19 reports were issued to department or agency officials. A list of these reports is included in Section III of the Appendix.

The following sections of this chapter describe briefly, under departmental or agency headings, the principal audit and review work performed by or under the direction of the division, the audit findings,

MANPOWER AND WELFARE DIVISION



act, to commit narcotic addicts for treatment and rehabilitation. Under that part of the act which authorizes pretrial civil commitment for treatment, in lieu of prosecution, of addicts charged with certain Federal crimes, only 179 were committed during the first 3 years compared with 900 a year expected to be committed before the act was passed. Also, neither HEW nor the Department of Justice had directed its financial assistance programs toward the development of close working relationships between State or local courts and federally funded State or local narcotic addict rehabilitation programs or the development of State or local civil commitment programs.

In accordance with our recommendations, the Department of Justice agreed to encourage the increased use of pretrial civil commitment by U.S. attorneys. Also, both the Department of Justice and HEW indicated that grant guidelines would be used to encourage development of State and local civil commitment programs. (See Appendix, Section I, Item 79.)

Another report, one of a series being prepared in response to a request from the Chairman, Subcommittee No. 4, House Committee on the Judiciary, covered programs concerned with the treatment and rehabilitation of narcotic addicts in Washington, D.C. We furnished information on such matters as the amount of money spent, the number of addicts being treated under various modes of treatment, goals of the programs, criteria used to measure program accomplishments, and efforts made by the sponsors to evaluate program performance. We did not evaluate

program performance but obtained information on problems and needs of the various treatment centers and ways to improve the programs. (See Appendix, Section I, Item 80.)

In September 1971 and May 1972, we testified before Subcommittee No. 4 on our reports dealing with programs for treating and rehabilitating narcotic addicts.

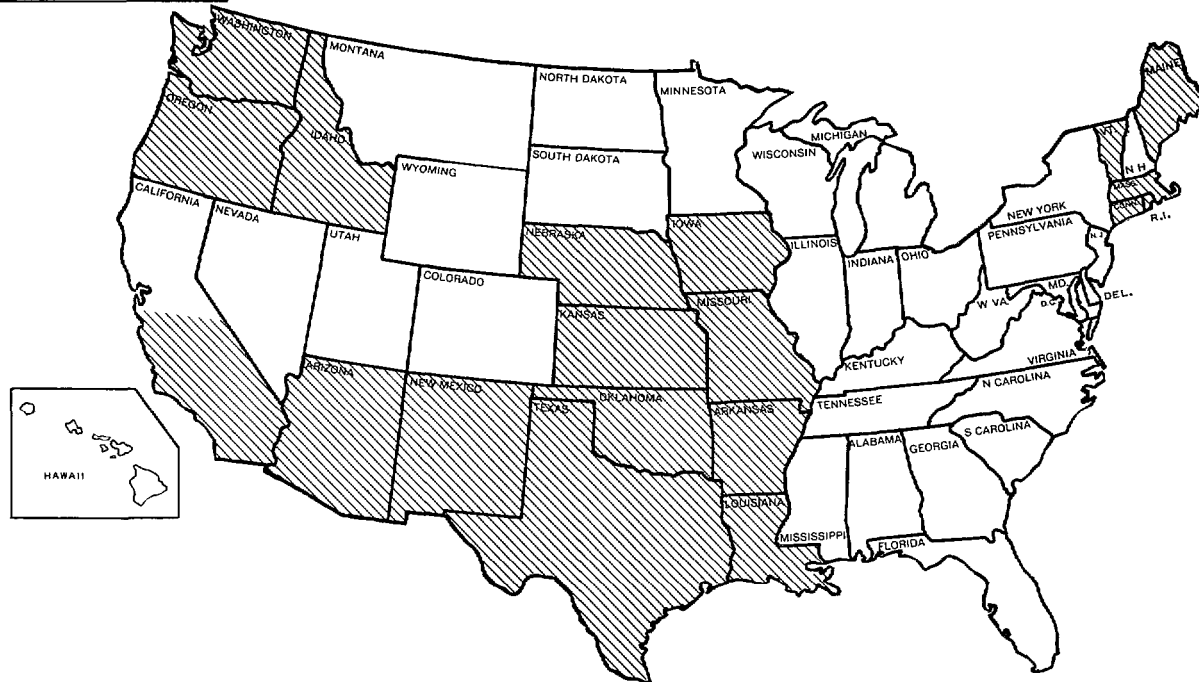
Our report to the Congress on the National Institute of Mental Health's program to improve mental health services through Federal grants for building and staffing community mental health centers showed that the Institute could improve its management of the program in several respects. We found that the Institute did not have a national goal for the number of centers required; information was needed from applicants by which to evaluate the proposed size of inpatient facilities; realistic appraisals were needed of the applicants' ability to obtain sufficient non-Federal funds for center operation; a need existed for monitoring centers' financial status after awards were made; and grant money had been used for unauthorized or questionable purposes at several centers. The Institute took a number of corrective actions in line with our recommendations for improving management of the program. (See Appendix, Section I, Item 78.)

In a report to the Secretary, HEW, we noted that certain grantees, after receiving Federal assistance for the construction of specified types of medical facilities under the Hill-Burton program, had redesignated and used part of the facilities for other purposes without

Community mental health center in the State of Florida.



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Other reports to committees or Members of Congress with respect to activities under programs administered by the Health Services and Mental Health Administration covered such matters as (1) the impact of a scheduled change in the method of distributing Federal funds for maternal and child health programs, (2) the right to use desirable products or systems developed through the use of Federal grant funds, (3) a review of expenditures incurred by a community health center, and (4) the planning, construction, and use of medical facilities at selected locations.

One report to the Congress on activities of the Food

Of the 97 plants, 39—or about 40 percent—were operating under insanitary conditions. Of these, 23—or about 24 percent—were operating under serious insanitary conditions having potential for causing, or having already caused, product contamination. We estimated that 1,800 plants in the 21 States were operating under insanitary conditions, including 1,000 operating under serious insanitary conditions. FDA officials advised us that conditions at plants in the 21 States would be representative of conditions at plants nationwide.

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standards were found. HEW concurred with recommendations we made for strengthening inspection activities and stated that a number of corrective actions had been or would be taken.

We suggested that the Congress consider the adequacy of FDA's inspectional coverage of food plants with the resources available under its current appropriations and consider amending the law to provide for civil penalties when sanitation standards are violated.

In the Second Supplemental Appropriation Act, 1972, the Congress approved the reprogramming of \$8 million for FDA to hire additional inspectors, especially in the critical food inspection area. FDA advised us in October 1972 that it had hired about 600 inspectors with the supplemental monies. (See Appendix, Section I, Item 13.)

Another report to the Congress concerned the feasibility of charging fees for processing applications for new drugs. The Federal Food, Drug, and Cosmetic Act, as amended, does not contain a specific requirement that HEW charge fees for processing such applications. HEW has not charged fees because it believes that the general public receives the primary benefits from the services and that the benefits received by the manufacturers are secondary.

We recommended that HEW consider establishing fees for FDA's services in processing applications involving new drugs because the manufacturers acquire benefits through the right to market the approved product. HEW agreed to study the matter, and the Office of Management and Budget said that it would review the HEW study. HEW subsequently advised us that it had completed its study and had concluded that it should not charge fees for processing new drug applications. (See Appendix, Section I, Item 12.)

In a report to the Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations, on a review made at his request, we stated that FDA's monitoring of the investigational use of the drug isoniazid in the control of tuberculosis was not in accord with its established regulations. The report showed also that the Public Health Service's Center for Disease Control, which was experimenting with a new dosage form of the drug, had not submitted information required by FDA regulations and needed by FDA to monitor and evaluate the use of the drug. (See Appendix, Section I, Item 14.)

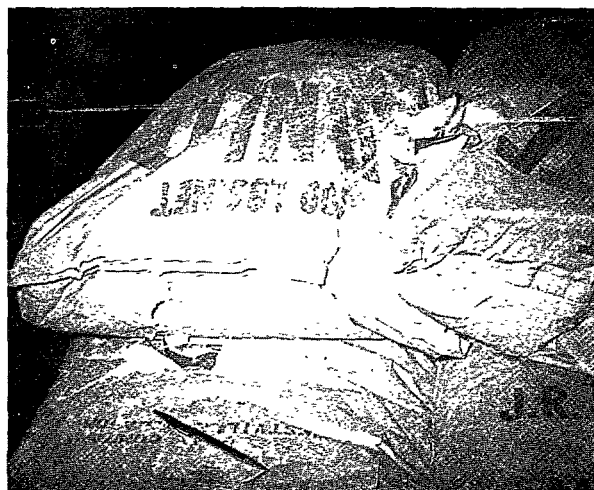
National Institutes of Health Activities

One of our reviews in the area of consumer protection concerned the effectiveness of vaccines licensed by the Division of Biologics Standards (DBS), National Institutes of Health. This review also was made at the request of the Chairman, Subcommittee on Executive Reorganization and Government Research, Senate Committee on Government Operations.

A requirement that biological products be effective, as a condition of licensing, was added to the applicable law in 1962. However, ineffective products licensed prior to 1962 were still being marketed at the time of our review. Further, of 221 lots of influenza virus vaccines permitted to be released by DBS during 1966, 1967, and 1968, 115 lots failed, according to the manufacturer's own tests, to meet potency tests established by DBS. Our report contained recommendations designed to preclude marketing biological products determined to be ineffective and releasing vaccines if tests by either the manufacturers or DBS show the vaccines to be sub-potent. Subsequently, the Secretary of HEW announced that DBS would be transferred to the Food and Drug Administration on July 1, 1972. (See Appendix, Section I, Item 15.)

NIH makes grants of Federal funds to assist in financing the construction of health research and teaching facilities. We issued a report to the Secretary of HEW containing recommendations for strengthening the administration of the related programs and were

A rodent-gnawed bag of flour located in a raw material storage area. Rodent pellets can be seen on the bag.



informed that actions had been or would be taken in accordance with our recommendations. (See Appendix, Section I, Item 38.)

In light of the above-mentioned review and other reviews in which we evaluated the effectiveness of consumer protection programs, we were called upon to testify before the Subcommittee on a legislative proposal to transfer FDA's functions to an independent consumer safety agency. We expressed the belief that, regardless of whether the consumer protection function can best be carried out by an independent agency or by a component of an existing Department, there must be a clear commitment by the Federal Government to consumer protection, with adequate resources devoted to the purpose, and competent and aggressive administration of the laws by the responsible officials and agencies.

Office of Education Activities

Title I of the Elementary and Secondary Education Act of 1965, administered by the *Office of Education* (OE), provides financial assistance to local educational agencies to meet the special educational needs of educationally deprived children residing in areas having high concentrations of children from low-income families. In a report to the Congress on the program in Illinois, we stated that the program provided new or additional services to these children but pointed out several areas where it could be strengthened. HEW concurred with our recommendations and described actions taken or planned to implement them. (See Appendix, Section I, Item 29.)

Because of pending legislation, we were requested by the Chairman, Senate Select Committee on Equal Educational Opportunity, to review the implementation of the Emergency School Assistance Program under which OE makes grants to school districts to defray the cost of meeting special problems arising from school desegregation. In reviewing the activities of 28 school districts, we identified several weaknesses in the districts' implementation of the program. HEW indicated, generally, that action would be taken to correct these weaknesses, which were attributable, to a high degree, to the emergency nature of the program and to the need for its expeditious planning, funding, and implementation. The lack of an effective HEW monitoring system also contributed to the weaknesses in project implementation.

We recommended also that, in the event additional funding is authorized, HEW allow school districts

reasonable time to identify problems in, and to effectively plan for, achieving and maintaining desegregated school systems prior to applying for Federal assistance. (See Appendix, Section I, Item 33.)

In two reports to the Congress, we assessed the effectiveness of the Teacher Corps program at participating schools in three counties in southern California in attaining the program's legislative objectives. We found that educational opportunities for children of low-income families living in urban areas and in rural migrant communities had been strengthened. *Corps* members introduced new teaching methods, organized educational community activities, and helped develop and operate learning centers. More than half of the interns who completed these programs were teaching, or had contracts to teach, in schools serving low-income families.

HEW needed, however, to clarify the intent of the enabling legislation concerning the use of corps members; OE needed to assure itself that the sponsoring university incorporated more successful features of the program into its regular teacher preparation program; and the California Department of Education needed to take a more active role in disseminating information about successful program features. HEW concurred with our recommendations and informed us of actions it would take to put them into effect. (See Appendix, Section I, Items 31 and 32.)

OE enters into contracts for studies and evaluations of Federal educational programs to determine whether the programs are meeting their objectives. We found that OE needed to improve its administration of these contracts to insure that the information obtained was useful and provided the benefits intended. Of 14 completed studies we selected for review, OE considered the information produced by five to be of limited use, and available information indicated that two of 10 ongoing studies might also fall short of meeting their objectives. HEW concurred with our recommendations for improving the administration of study and evaluation contracts. (See Appendix, Section I, Item 30.)

Medicaid

Two reports to the Congress, four to congressional committees, and one to an agency administrator concerned the administration in selected States of the Medicaid program—a grant-in-aid program under which the Federal Government participates in the costs incurred by the States in providing medical care to individuals who are unable to pay for such care.

About \$5.9 billion was expended under the program during fiscal year 1971; the Federal share was about \$3 billion. As in the preceding fiscal year, we inquired into the administration of the program because of continued substantial increases in program expenditures and the concern of the Congress with certain aspects of the program.

We found a variety of weaknesses in the administration of the program by HEW's Social and Rehabilitation Service, the State agencies, and providers of services. Among these deficiencies were:

- Paying for medical services that should have been paid for by the recipients.

- Ineffective control by State agencies over the correctness of decisions reached by local welfare agencies, including decisions pertaining to eligibility.

- Noncompliance by States with limitation on Federal share of costs.

- Lack of appropriate criteria to guide States in establishing rates of payment for nursing home care and of policies for reviewing and evaluating the procedures used by States in establishing these rates.

- Inadequate implementation of review systems required by law to safeguard against unnecessary medical care and services and to insure that payments are reasonable and consistent with efficiency, economy, and quality care.

- Paying for drugs which the Surgeon General determined should not be furnished by the program because they have been classified by the Food and Drug Administration as ineffective or possibly effective.

We believe that the weaknesses in administration were principally the result of inadequate guidelines, supervision, and surveillance by HEW and by the State agencies. HEW stated that it would make a number of improvements in line with our recommendations. (See Appendix, Section I, Items 42, 43, 45, and 47.)

Medicare

During the year we submitted three reports to the Congress and three to committees or Members of Congress on reviews of selected aspects of Medicare. In addition, we issued two reports to Social Security Administration (SSA) officials on Medicare activities.

One of the reports to the Congress summarized problems observed in making Medicare payments for services of supervisory and teaching physicians in hospitals having programs in graduate medical education. We

had reviewed payments for the services of such physicians at six hospitals and had previously submitted reports to congressional committees on these reviews. We continued to assist the cognizant legislative committees in connection with their consideration of possible changes in legislation and governing regulations to improve the operating effectiveness of Medicare through the resolution of these and other problems.

Another report to the Congress concerned the review system established to control the extent of care provided to Medicare patients by hospitals and other facilities. Our examination of the procedures of selected hospitals and extended-care facilities pointed up important problems in the manner in which the institutions had implemented the requirements for utilization review and in the controls SSA was exercising over the function. Our report contained a number of recommendations for improving this function, and HEW took action which it estimated would reduce Medicare costs by about \$60 million in fiscal year 1972. (See Appendix, Section I, Item 76.)

Another report to the Congress related to the question of whether the Medicare law was promoting the most economical ways of providing durable medical equipment, such as wheelchairs, hospital beds, and respirators, for use by Medicare patients in their homes. We found that it was **not**. Medicare patients often rented durable medical equipment even when the periods of use—as estimated by their physicians—were long enough to justify purchase. The law contributed to this inefficiency by providing that reimbursement to patients for equipment with a purchase price of more than \$50 be made only in periodic installments equal to rental payments. At June 30, 1972, the Congress was considering changes in Medicare legislation, along the lines we recommended, to authorize HEW to deal more effectively with the problem of unreasonable expenses to Medicare resulting from prolonged periods of equipment rentals. (See Appendix, Section I, Item 77.)

Welfare Programs

During fiscal year 1972, we examined various aspects of the administration of welfare or public assistance programs in selected States. Under these programs the Federal Government participates—through grants-in-aid—in the costs incurred by States in making welfare payments to families with dependent children, the aged, the blind, and the disabled. We found a variety

of weaknesses in the administration of the programs by HEW's Social and Rehabilitation Service and the State agencies. These deficiencies were discussed in four reports to the Congress: two to the Congress and two to congressional committees.

The Chairman, Senate Committee on Finance, requested us to obtain certain information for use in the Committee's deliberations on the administration's proposed welfare reform legislation known as the Family Assistance Plan. Among this information was the effect, if any, that the simplified method of determining eligibility under the program of aid to families with dependent children had had on the number of recipients of aid, the number of applicants rejected, and the number of ineligible persons on the rolls. Many States use the simplified method, which HEW authorized for use in January 1969, or use a modified version. The simplified method permits the States to accept persons as eligible on the basis of unverified information furnished by applicants, whereas the traditional method requires independent verification. Our report set forth several factors for consideration in devising a system for determining eligibility in a program of increased magnitude as envisioned by HEW under the proposed legislation. (See Appendix, Section I, Item 41.)

We also examined HEW's quality control system for evaluating determinations of eligibility under the welfare programs. Our examination was made in eight States which spent about 50 percent of all welfare funds in fiscal year 1971. The system, which HEW prescribed for implementation by the States in October 1970, had not been implemented fully in the eight States at the time of our review. Consequently the system had not accomplished its purpose—HEW did not know whether rates of ineligibility and incorrect payments were within established level of accuracy.

Under the administration's proposed welfare reform legislation, HEW would have sole responsibility for quality control and would use a plan for carrying out the proposed change which, if effectively implemented, could restore public confidence in the integrity of the welfare programs. In response to our recommendations, however, HEW described actions it had taken or planned to take to make the existing system more effective, pending enactment of any legislative changes. (See Appendix, Section I, Item 44.)

About 1.9 million of the 2.7 million families receiving assistance under the program for aid to families with dependent children during fiscal year 1971 we,

without fathers in the homes. Our examination, made at the request of the Chairman, House Committee on Ways and Means, showed that opportunities existed to increase substantially the amount of child support collected from absent parents and, hence, to decrease welfare payments or increase the amounts available to others. We stated in our report that HEW should place more emphasis on its child support enforcement program to take advantage of these opportunities. (See Appendix, Section I, Item 40.)

The Federal Government shares with the States the expense of administering the public assistance programs. Because of the large expense, we reviewed the claims for such expenses made by two large States and found that payments to these States exceeded authorized amounts because HEW's system did not insure proper payments. In response to our recommendations, HEW cited actions it had taken or proposed to take to improve its system. HEW also stated that its audit agency would give attention to the effectiveness of State procedures and controls for preparing claims for such expenses. (See Appendix, Section I, Item 46.)

Other Government Health Programs

Three such reviews were made during the year of Government health programs in addition to those, such as Medicaid and Medicare, that are administered by the Department of Health, Education, and Welfare.

As a result of one of the reviews, we reported on opportunities for the Civil Service Commission to improve its administration of the Government-wide Indemnity Benefit Plan of health insurance for Federal employees and annuitants, which is carried out by the Aetna Life Insurance Company under contract with the Commission. Matters reported on included Aetna's methods of establishing premium rates, the size of the reserves maintained, and the reasonableness of the amounts allowed Aetna and the reinsurers for underwriting risks.

Inasmuch as there appeared to be little or no risk in underwriting the Plan, we suggested that the Congress consider amending the applicable legislation to eliminate the mandatory provision for reinsurance. (See Appendix, Section I, Item 207.)

Other reviews, made at the request of a congressional committee or Members of Congress, dealt with the policy of the Department of Defense for protecting humans used in medical research projects carried out

by its contractors or grantees and with the procurement of a particular type of resuscitator by the Department of the Army.

Department of Labor

At the Department of Labor we directed our primary audit emphasis to reviewing the major Federal manpower training programs and activities of the Manpower Administration. Other reviews included the Neighborhood Youth Corps Program, the Concentrated Employment Program, the Job Corps Program, and the Operation Mainstream Program, all authorized by the Economic Opportunity Act of 1964, as amended, and administered under authority delegated by the Office of Economic Opportunity. Reviews also were made of departmental determinations of prevailing wage rates under the Service Contracts Act of 1965 and of departmental administration of health and safety programs and activities under the Occupational Safety and Health Act.

We submitted seven reports to the Congress on reviews of Department of Labor programs and activities and 12 reports to congressional committees or Members of Congress on reviews made at their request. In addition, seven reports on various programs and activities were issued to Department officials.

In June 1972 our representatives testified in hearings before the Special Subcommittee on Labor, House Committee on Education and Labor, on matters relating to our review of the Department's wage determination activities under the Service Contract Act of 1965 and on certain legislative proposals of the second session of the 92d Congress to amend the Service Contract Act.

In the same month our representatives testified in hearings before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking and Finance, on our reports on the Department's administration of wage determination activities under the Davis-Bacon Act and on certain legislative proposals of the second session of the 92d Congress, which would remove certain types of federally assisted housing construction from the requirements of the act.

Six of the reports to the Congress related to Federal manpower training programs and discussed (1) problems in accomplishing objectives of the Work Incentive Program, (2) opportunities for improving federally assisted manpower programs identified as a result of a review in the Atlanta, Ga., area, (3) problems

in making the Concentrated Employment Program work in rural Mississippi, (4) opportunities for improving the institutional manpower training program in South Carolina, (5) improvements needed at a manpower training skills center in Boston, Mass., and (6) the impact of a computerized job bank on employment security operations in the Baltimore, Md., area. The seventh report discussed the need for improved administration in the Davis-Bacon Act noted over a decade of GAO reviews. The principal findings, conclusions, and recommendations in these reports are summarized below.

The Work Incentive Program **was** designed to provide recipients of welfare under the Aid to Families with Dependent Children program with training and services necessary to remove them from welfare dependency. We cited a number of weaknesses in the program's management information system and their effect on determining program results, various problems in program design, which was attendant with unreasonable or inequitable provisions, and actions taken or to be taken by the Department of Labor and HEW to correct the major problems cited. Inasmuch as the design of the program could not be dealt with effectively by administrative action alone, we suggested several changes in legislation for consideration by the Congress in its deliberations on welfare reform. (See Appendix, Section I, Item 73.)

As the result of a review of the federally assisted manpower programs in the Atlanta, Ga., area, we reported a number of opportunities for the Departments of Labor; Health, Education, and Welfare; and Housing and Urban Development to improve program operations. Improvement was needed under (1) the Model Cities Program in the efforts being made to bring in persons needing manpower services and (2) two programs in the procedures for determining applicants' eligibility. We recommended that procedures in metropolitan areas, such as Atlanta, for ascertaining persons' eligibility for services, assessing their vocational needs and abilities, and assigning them to appropriate training and education courses be consolidated to the extent feasible. Although the other Departments agreed, the Department of Labor favored continuing the approach to screening that had been followed.

Inasmuch as a need existed for standardizing training allowances paid to program participants, we suggested that the Congress consider legislation that

**TYPICAL MANPOWER DEVELOPMENT TRAINING
ACT CLASSES AT THE
RICHLAND-LEXINGTON SKILLS CENTER**



Food services



House repair



Clerical

would standardize such allowances. (See Appendix, Section I, Item 72.)

The Concentrated Employment Program was designed specifically to draw together under one sponsor work and training resources of the Federal Government in areas having large numbers or proportions of persons unemployed or existing on low incomes. In our report on the program in rural Mississippi, we stated that the effectiveness of the program was hampered by many problems of administration, a stagnant economy, an insufficient labor demand, a labor force consisting largely of black farmworkers without necessary educational and vocational skills, and a lack of a comprehensive economic development program to attract new industry or otherwise create new job opportunities. We concluded that, unless manpower programs are accompanied by strong Federal, State, private, and local action to create new job opportunities, the program accomplishments will continue to be limited severely in such rural areas as the Mississippi Delta. The Department of Labor agreed and said that it planned to continue its efforts toward making a more effective program in the area. (See Appendix, Section I, Item 69.)

Title II of the Manpower Development and Training Act of 1962, as amended, authorizes both on-the-job and institutional (classroom) training programs to prepare persons for jobs. We made a number of reviews to assess the results of the institutional training program and the way it has been administered at the Federal and local levels. Opportunities for improvement were pointed out in our report on the program in South Carolina.

Extensive and timely surveys of job opportunities in the State were needed to correlate training courses with the best available job opportunities. Better job development and placement was needed to assist the significant number of program graduates who were unemployed or who had not obtained jobs relating to their training. Neither of the State agencies responsible for running the program had prepared areawide or State-wide reports needed to make informed judgments as to program effectiveness and desirable changes in program direction. Also, controls over training equipment were inadequate. The Department of Labor and HEW stated their general agreement with our findings and recommendations and outlined corrective actions taken. (See Appendix, Section I, Item 70.)

Our report on the operations of an institutional training program at a manpower training skills center

in Boston, Mass., also pointed out opportunities for improvement. Persons who received prevocational training were not always adequately prepared for further training in the vocational courses being offered and enough vocational openings were not always available to accommodate those who were prepared. Other problems were the enrollment of a disproportionate number of persons who were not disadvantaged, a need for improved counseling and monitoring services, and a need for an improved information system. The Department of Labor and HEW agreed with our recommendations and advised us of steps being taken to improve the center's operations. (See Appendix, Section I, Item 65.)

Use of a computerized job bank in the Federal-State employment security program in the Baltimore, Md., area, to process, distribute, and control announcements of job openings improved services to employers and job seekers. Nevertheless, we found need for further improvement if potential benefits were to be realized. There was need for improvement in reporting job placements, strengthening the interviewing function and supplementing it with improved counseling and job-development services for applicants, and improving the application of the prescribed criteria for classifying persons as disadvantaged. Also, the sponsors of all federally financed manpower programs in the Baltimore area and in other metropolitan job bank areas should be required or encouraged to furnish the State agencies with information on available training opportunities. The Department of Labor agreed generally with our findings and related recommendations and cited various corrective actions that it was taking. (See Appendix, Section I, Item 87.)

Our report on the administration of the Davis-Bacon Act commented on the need for improvement noted in a series of reports submitted to the Congress between 1962 and 1970 and on the need for corrective actions beyond those taken by the Department of Labor in response to these reports. We had pointed out that the minimum wage rates prescribed by the Department were significantly higher than the prevailing wage rates in the areas and substantially increased the costs of construction borne by the Federal Government.

We suggested, in regard to the Department's administrative burden, that the Congress consider revising the Davis-Bacon Act to increase the \$2,000 minimum contract cost subject to wage determinations. An increase would substantially reduce the number of

wage determinations to be issued by the Department without appreciably affecting the wage stabilization objectives of the act. (See Appendix, Section I, Item 88.)

Three of the 12 reports submitted to congressional committees or Members of Congress concerned the implementation of the Emergency Employment Act of 1971, the purpose of which is to provide unemployed and underemployed persons with transitional employment in jobs providing needed public services during times of high unemployment. The first report related to the method of allocating funds to the participating States, counties, cities, and other entities. The second report compared the number of persons hired with anticipated hirings, and the third report concerned the preparation and approval of plans for implementing the program. (B-163922, Dec. 17, 1971; Feb. 16, 1972; and Mar. 17, 1972.)

Another committee report summarized findings, conclusions, recommendations, and observations resulting from our reviews of manpower training programs from 1969 through 1971. Included were comments regarding program design, eligibility and screening, counseling, occupational and academic training, job development and placement, monitoring, followup, program planning, supportive services, management information systems, and fiscal financial matters. Also included were observations on (1) measuring the success of manpower training programs, (2) the proliferation of such programs, (3) the impact of the economy on attaining program objectives, and (4) the limited impact such programs have in rural areas. (See Appendix, Section I, Item 67.)

National Science Foundation

During fiscal year 1972 we submitted one report to a congressional committee and one report to a Member of Congress on reviews made at their request of activities in which the National Science Foundation (NSF), as well as other Federal agencies, were involved.

The Chairman, Subcommittee on Science, Research and Development, House Committee on Science and Astronautics, requested us to develop information concerning Federal support of research directed toward social, environmental, and technological problems (problem-oriented research). We were asked to give special attention to an NSF program called Research Applied to National Needs (RANN).

The RANN program was designed to focus research on selected environmental and social problems and on opportunities for future technological development. NSF's support of problem-oriented research is intended to complement the research capabilities of Federal agencies having special concern with environmental, social, and technological problems.

In our report to the Chairman, we described NSF's RANN program and presented the views of 122 Government and non-Government organizations and individuals as to who should sponsor and perform problem-oriented research; the responsibilities of the sponsors and performers; and what the roles of NSF and other Government, private, and nonprofit organizations should be. (See Appendix, Section I, Item 141.)

Audit work in process at the end of fiscal year 1972 included reviews of the ocean sediment coring program, the atmospheric sciences program, and internal audit activities.

Office of Economic Opportunity

Twenty-six congressional reports were completed on Office of Economic Opportunity (OEO) operations. Seven of these were submitted to the Congress as a whole and 19 were submitted to committees or Members. Three reports were issued to agency officials.

An effort given a high priority in OEO's overall antipoverty program is the development of new ways to help the poor become self-sufficient. During fiscal years 1965 through 1970, OEO funded about 740 research and pilot projects—including projects for the creation of new business opportunities for the poor. To evaluate their general management by OEO, we reviewed six of these projects in the field and 23 at OEO headquarters.

Various weaknesses in conception and management were identified and reported to the Congress, including lack of managerial competence at the projects, inadequate evaluations prior to funding, and establishment of unrealistic goals. Further, resources of private enterprise were not sufficiently involved nor were resources of other Federal agencies sought to the fullest extent available. Also, OEO was not adequately monitoring project operations nor determining and disseminating information on results. OEO agreed with our recommendations and informed us of actions taken or planned to implement them. (See Appendix, Section I, Item 28.)

Following a review of the Special Impact Program in the Hough area of Cleveland, Ohio, we reported to the Congress that the program had fallen short of accomplishing its goal of developing minority businesses and employment in that area. The Hough program, the first of its kind to be funded directly by grants from OEO, had, after more than 2½ years of Federal funding, brought few visible benefits to the area.

OEO agreed generally with our recommendations that it carefully evaluate and monitor ongoing activities, that it work with the local agency administering the program to insure completion of the major venture—a combination shopping center and housing development—and that the local agency be required to submit a detailed plan for distributing ownership of existing businesses assisted by the program to Hough residents and/or plans for the use of funds derived from ownership retained by the local agency. (See Appendix, Section I, Item 27.)

In another report to the Congress, we stated that the operations and management of five Opportunities Industrialization Centers (OICs) needed to be improved. The OIC program provides unemployed and underemployed persons who ordinarily have not been attracted to public agency-sponsored manpower programs with motivational and basic work orientation, basic education, skill training, and job-placement assistance.

We found a need for specific eligibility criteria; improved counseling programs; establishment of standards against which enrollees' needs, progress, and readiness to advance could be objectively measured; more accurately and consistently classified and recorded job-placement information; a more systematic basis for monitoring and evaluating efforts; and a clearer definition of the responsibility for these efforts. OEO informed us of actions it had taken to strengthen program operations. (See Appendix, Section I, Item 71.)

Another report to the Congress covered our review of the administration of the Neighborhood Health Services Program administered by the Southern Monterey County Rural Health Project, King City, Calif. Opportunities for improvement existed in that (1) the project's organizational structure did not insure that activities would be conducted efficiently, effectively, and free of conflicts of interest, (2) adequate evaluations of the quality of the medical care provided and the effectiveness of other aspects of the project were not available, (3) more emphasis needed to be given to providing, and encouraging enrollees to seek, preventive medical care, and efforts needed to be taken

to improve the environmental conditions which contribute to the enrollees' health problems, (4) policies and procedures for determining eligibility needed strengthening, and (5) all available county health services were not being utilized. OEO informed us of actions it had taken or planned to take in line with our recommendations. (See Appendix, Section I, Item 26.)

We also reviewed operations of the Neighborhood Health Services Program in Rochester, N.Y. We reported to OEO that improvements were needed in providing preventive health care and in medical record-keeping if the project was to make comprehensive health services available to its target population in the manner contemplated. Principally, maximum use was not being made of the professional staff, and health care rendered was primarily episodic rather than preventive. OEO informed us that actions were being taken in accordance with our recommendations. (See Appendix, Section I, Item 25.)

We also reported to the Congress that improvements were needed in the procedures and practices followed by OEO in administering contracts awarded for continuing evaluations of antipoverty programs or for testing or assisting in the development of new approaches or methods to further the purposes of the programs. We found that (1) 10 of 14 contracts reviewed did not provide OEO with objective and useful information to aid in the design, development, and assessment of its programs, (2) contract specifications did not always clearly and accurately describe the technical requirements of services to be procured, and (3) the absence of monitoring guidelines, the ineffective action to deal with contract problems, and the lack of continuity in monitoring the contracts resulted in reports that did not provide the objective and useful information contemplated. OEO informed us of actions it had taken or planned to take to improve contract management. (See Appendix, Section I, Item 149.)

OEO also enters into contracts and makes grants to provide training and technical assistance to local anti-poverty agencies so they can operate their programs more efficiently and effectively. In another report to the Congress, we stated that services provided under 11 selected contracts we reviewed did not satisfy, to a significant extent, the agencies' needs. OEO did not determine the specific needs of the agencies prior to awarding the contracts; under several contracts, the services to be provided were not scheduled adequately in advance; in some cases, OEO did not promptly assign project managers who could have participated

in planning the contracted services and who could have guided contractor performance throughout the contract period; and OEO did not evaluate the impact of the training services on the agencies. OEO informed us of actions it had taken or planned to take in line with our recommendations. (See Appendix, Section I, Item 147.)

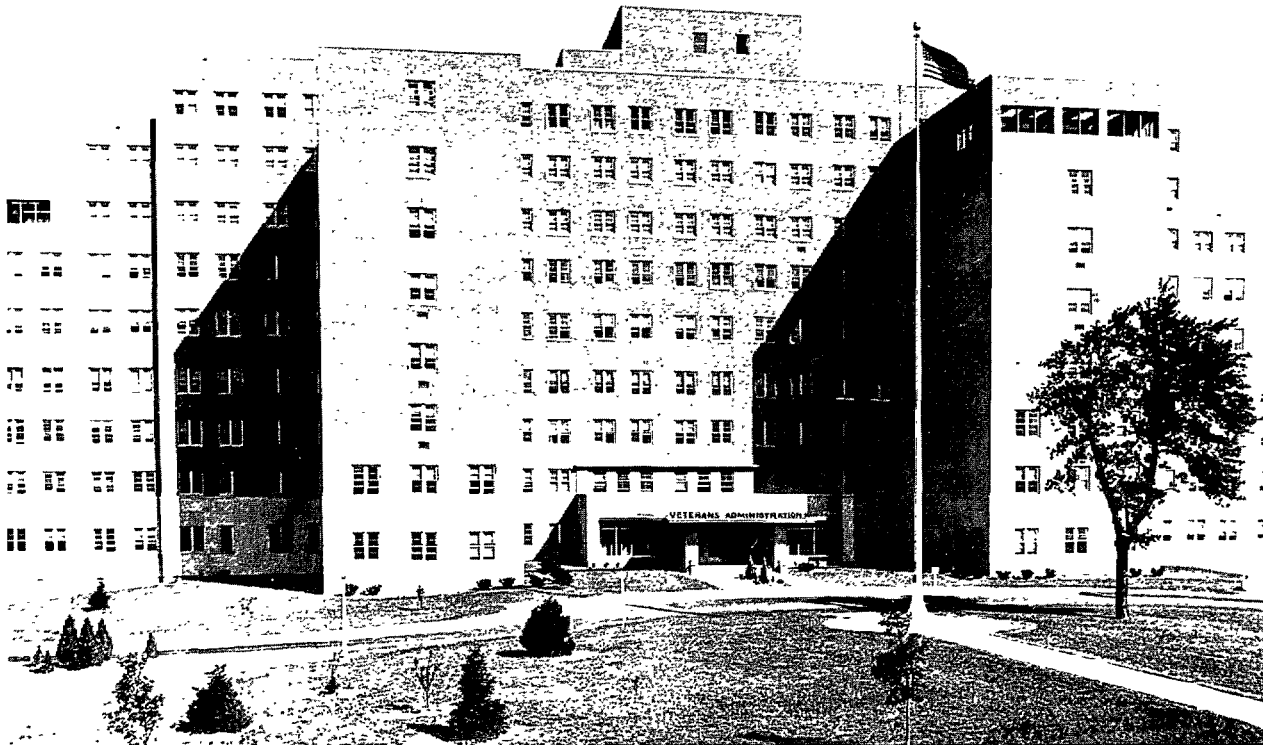
As a result of a review of OEO's contract award procedures and practices, we reported to the Congress that improvements were needed in that (1) OEO did not always include in the negotiation process all contractors that had submitted responsive proposals determined to be in a competitive range, (2) it did not always adequately determine whether prospective contractors possessed the technical and financial capacity to perform proposed contracts, (3) it did not always allow prospective contractors sufficient time for preparation of proposals, and (4) its ability to adequately evaluate prospective contractors was lessened by the award of a disproportionate number of contracts in June, the final month of the fiscal year. OEO informed us that actions were being taken to strengthen its procurement process. (See Appendix, Section I, Item 148.)

Audit work in process included reviews of activities of specific community action agencies (CAAs) made pursuant to requests of committees or Members of Congress, the utilization of professional staff in OEO and HEW Comprehensive Health Services programs, manpower programs carried out by CAAs, the impact of the total Federal effort in improving the living conditions of migrant and other seasonal farmworkers in selected geographical areas, OEO controls over CAAs and like controls by CAAs over delegate agencies, a Special Impact Program in the Bedford-Stuyvesant area of New York City, and the effectiveness of the OEO Legal Services Program.

Veterans Administration

We completed seven congressional reports on reviews of Veterans Administration (VA) activities: four to the Congress, two to congressional committees, and one to a Member of Congress. We issued one report to the Administrator of Veterans Affairs.

VA provides financial assistance to veterans and servicemen to enable them to obtain an education or job training. One of our reports to the Congress, on which we testified in hearings before the Senate Veterans' Affairs Committee in May 1972, concerned the enrollment of veterans in correspondence courses. We



Veterans Administration Hospital, Iowa City, Iowa.

had found that about 75 percent of the enrollees failed to complete their courses and that the completion rate in several subjects was less than 10 percent. Through June 30, 1970, 160,000 veterans had discontinued courses. We estimated that veterans had paid \$24 million for uncompleted courses for which they had not received refunds or reimbursements from VA. Among the reasons given for noncompletion were that the courses were too difficult or were not what the veterans had expected them to be.

VA agreed with and began implementing our recommendations that the veterans be advised of completion statistics for various courses and that they be encouraged to seek VA's advice and assistance before selecting educational or training programs. (See Appendix, Section I, Item 181.)

Another report to the Congress concerned the procedures followed in computing the amounts of educational benefits due veterans. We estimated that VA could realize net savings of about \$500,000 a year in administrative costs, after incurring one-time computer reprogramming costs of \$72,000, and could improve service to veterans by eliminating manual verification

of data on veterans' change of status documents with like data in veterans' case files and by placing greater reliance on computer verification of data in the master records. VA agreed in principle with our recommendation and said that action to achieve these savings would be taken as soon as possible. (See Appendix, Section I, Item 180.)

We reported to the Congress that, although VA had determined that each of the 23 open-heart-surgery centers which it had established in its hospitals should perform a minimum of 52 open-heart-surgery procedures a year so that surgical teams could retain their proficiency, most centers were not meeting this criterion. During fiscal year 1971, only seven of the 23 centers performed the minimum number of operations. One reason for the low use of the centers was that VA allowed some of its hospitals which did not have open-heart-surgery centers to perform open-heart surgery or to transfer their surgery patients to medical-school hospitals with which they were affiliated rather than to the nearest VA open-heart-surgery center. We recommended that VA examine the program with a view toward redetermining the number and location of its

open-heart-surgery centers. VA then established an advisory group to review existing centers. (See Appendix, Section I, Item 179.)

Another report to the Congress related to the automated system developed by VA to control the procurement, storage, and distribution of supplies for its hospitals. The design of one segment of the system was relatively narrow in scope, depending, to a large extent, on manual rather than automated processes for replenishing supplies. VA agreed that the automatic replenishment system which we proposed would result in savings and that the savings could be substantial if the system could be applied to a major portion of the supply items, but it expressed reservations regarding the extent to which the supply system could be automated. In accordance with our recommendation, VA planned a programed testing of automatic stock replenishment. (See Appendix, Section I, Item 157.)

At the request of the Chairman, Subcommittee on Housing and Urban Development, Space, Science, and Veterans, House Committee on Appropriations, we examined into and reported on whether VA had complied with the intent of the Congress as expressed in

a special provision of its appropriation act for 1972, approved August 10, 1971, which required that funds appropriated by the act not be apportioned to provide for less than a specified number of beds in VA hospitals or to furnish inpatient care and treatment to less than a specified patient load during fiscal year 1972. VA made funds available to operate at the specified levels, starting November 1, 1971, although funds could have been made available sooner under authority provided by the continuing resolution dated July 1, 1971, after the intent of the Congress was clearly established by passage of the 1972 appropriation bill by the Senate on July 20, 1971. We stated that, because of the delay, VA's administration of the special provision was not in accord with the intent of the Congress. (See Appendix, Section I, Item 178.)

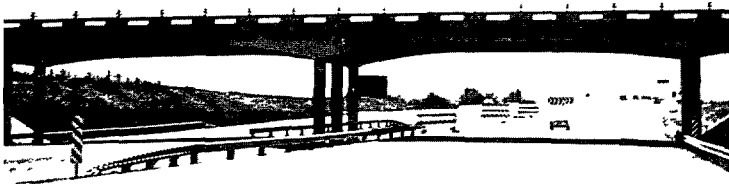
Audit work in process at the close of the fiscal year included reviews of VA's outpatient program, laboratory program, hospital communication systems, administration and utilization of selected specialized medical service units, and outreach program to advise educationally disadvantaged veterans of their benefits and to encourage them to complete their education.



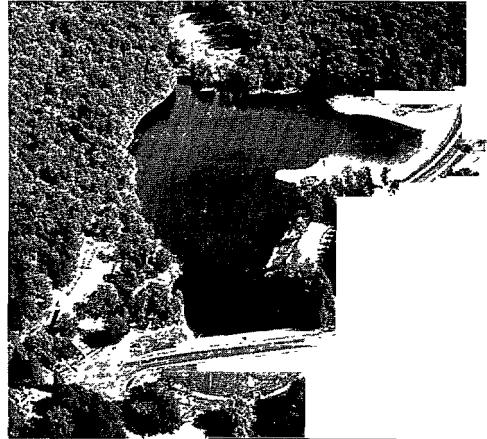
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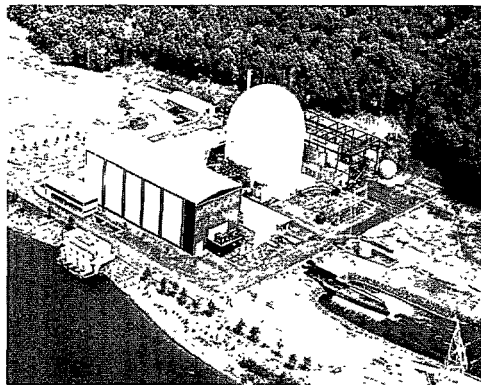
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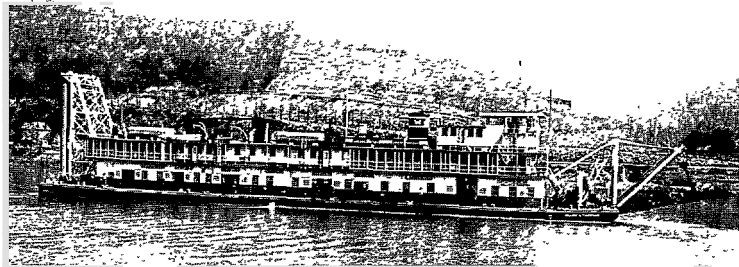
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- ① Coal strip mining operations
Department of the Interior
- ② Highway construction program
Federal Highway Administration
- ③ Nuclear power plant
Atomic Energy Commission
- ④ Fighting forest fires
Forest Service
- ⑤ Watershed project
Soil Conservation Service
- ⑥ Pipeline dredge
U.S. Corps of Engineers

⑥



Development Division has primary audit responsibility and the audit findings and actions taken or comments made by the departments or agencies on our recommendations or suggestions for improving their operations. More detailed descriptions of these findings and recommendations and descriptions of those included in other reports prepared by this division are contained in Section I of the Appendix.

National Environmental Policy Act of 1969

One of our reviews concerned the manner in which selected agencies were implementing section 102 of this act. Section 102 requires all agencies of the Federal Government to prepare detailed environmental impact statements on proposals for legislation and other major actions significantly affecting the quality of the human environment. Our review at seven agencies showed that the requirements were not being carried out uniformly and systematically.

In our report on the review, made at the request of the Chairman, Subcommittee on Fisheries and Wildlife Conservation, House Committee on Merchant Marine and Fisheries, we stated that most of the agencies had not completed environmental statements in time to accompany proposals through all agency levels of review, had not completed their statements in time for use in the early stages of decisionmaking, and had not reviewed effectively the results of plans to insure that the environment had been protected as anticipated.

The Council on Environmental Quality generally had adopted only an advisory approach; the Environmental Protection Agency had not met, on a timely basis, its legislative responsibilities to (1) make public its comments on agency environmental impact statements and (2) review and comment in writing on procedures proposed by Federal agencies for preparing impact statements; and the Office of Management and Budget had not required the agencies to furnish impact statements as a prerequisite for its legislative clearance, except for water resources projects.

The agencies generally agreed that improvements were needed in implementing the act and that our findings and conclusions would be helpful in refining their procedures.

On May 24, 1972, GAO representatives testified at hearings held before the Subcommittee concerning the

CHAPTER TEN

RESOURCES AND ECONOMIC DEVELOPMENT

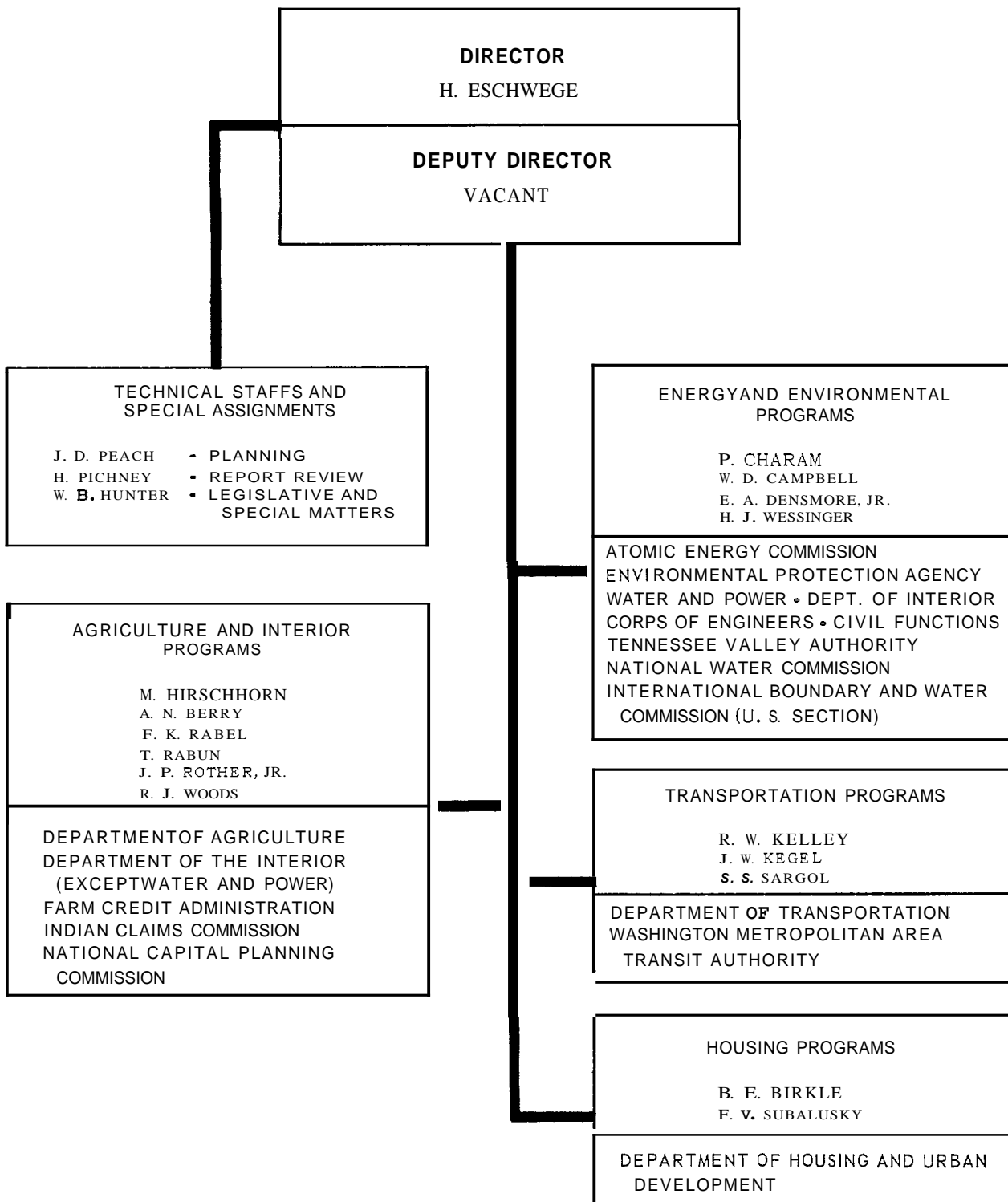
Responsibilities

The Resources and Economic Development Division which has primary responsibility for carrying out our audit work at the Departments of Agriculture, Housing and Urban Development, the Interior, and Transportation; the Department of the Army, Corps of Engineers (civil functions); the Atomic Energy Commission; the Environmental Protection Agency; the Tennessee Valley Authority; and various commissions, boards, and councils. This division is under the supervision of Henry Eschwege, Director, and Philip Charam and Max Hirschhorn, Deputy Directors. An organization chart of this division appears on the following page.

During fiscal year 1972 we submitted 79 reports to the Congress on reviews of activities of the departments and agencies for which the Resources and Economic Development Division has primary audit responsibility: 29 to the Congress and 50 to committees or Members of Congress on reviews made in response to their specific requests. In addition, 50 reports were issued to department or agency officials. A list of these reports is included in Section III of the Appendix.

The following sections of this chapter briefly describe the principal audit work in the departments and agencies for which the Resources and Economic

RESOURCES AND ECONOMIC DEVELOPMENT DIVISION



JUNE 30, 1972

matters discussed in our report. (See Appendix, Section I, Item 84.2)

Department of Agriculture

We completed 16 congressional reports on reviews of Department of Agriculture operations other than international operations which are discussed in Chapter 12. Ten of these reports were submitted to the Congress and six were submitted to Members of Congress. In addition, 11 reports were issued to Department or agency officials. Our reviews covered farm program and commodity activities, marketing and consumer services, forestry and conservation, rural development, agricultural research and education, and departmental administration.

Farm Program and Commodity Activities

Title I of the Agricultural Act of 1970 limited to \$55,000 the annual amounts of direct Federal payments a person could receive under each of the 1971-73 upland cotton, wheat, and feed grain programs. The authorizing legislation and subsequent regulations, however, did not prohibit producers who were subject to the limitation from changing their farming operations and organizations to reduce the financial impact of the limitation.

We reported to the Congress that the \$55,000 payment limitation had caused no significant reduction in the total amount of 1971 cotton, wheat, and feed grain program expenditures. For the 98 producers whose operations we reviewed, only about \$356,000 of a potential \$17.1 million in savings had been realized. A Department study showed nationwide savings of only \$2.2 million.

In response to our recommendations, the Department took or initiated actions which, if effectively implemented, should significantly strengthen the administration of the payment limitation. (See Appendix, Section I, Item 2.)

The Department's Food and Nutrition Service (FNS) administers the commodity distribution program under which food is donated to needy persons, schools, and others. Our review of program costs showed that they could be reduced substantially if FNS enforced its requirement that commodities be requisitioned in the most economically sized packages practicable and required State distributing agencies to submit requisitions promptly to avoid special purchases,

which are more costly. FNS subsequently took or proposed to take actions to reemphasize to State agencies the need to provide foods in larger containers to certain recipients and to eliminate unjustified special purchases. (See Appendix, Section I, Item 1.)

As required by the Government Corporation Control Act, we made an audit of the financial statements of the Commodity Credit Corporation as of June 30, 1971, and submitted a report thereon to the Congress on January 14, 1972.

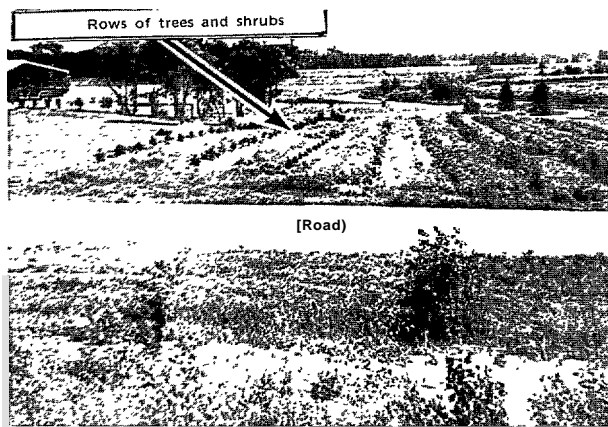
Marketing and Consumer Services

We had recommended after an earlier review that the Consumer and Marketing Service (C&MS) strengthen its enforcement of sanitation standards in federally inspected poultry plants. C&MS took some actions to improve enforcement, but we found in a followup review at 68 plants that these actions had not been successful in achieving adequate enforcement. The situation was indicative of a lack of strong day-to-day enforcement by C&MS plant inspectors and a lack of effective supervisory review.

We recommended that the Secretary reevaluate an earlier recommendation, made by departmental consultants, that a separate agency be established within the Department for administering consumer protection programs but that, in the interim, C&MS explore other and more immediate avenues to improve and emphasize the enforcement of sanitation standards.

We were informed, in response to our recommendations, that C&MS was attempting to correct deficiencies in its supervisory structure and was taking or planning other actions to improve enforcement of sanitation standards. However, on April 2, 1972, the meat and poultry inspection activities of C&MS were transferred to another agency within the Department. (See Appendix, Section I, Item 10.)

In another report to the Congress, we stated that C&MS needed to strengthen its administration of the import meat inspection program. Some foreign meat plants had not been delisted (did not have their certifications to export to the United States withdrawn) even though they had not fully complied with U.S. requirements. Of the plants that were delisted, considerable time generally had elapsed between the time deficiencies were found and the time delistments took effect. Meat products processed in the interim were eligible for export to the United States unless C&MS had determined that the plant constituted a health hazard.



We found that windbreaks — planted rows of trees and shrubs adjacent to farmsteads — do not provide soil or conservation benefits to the public and therefore should not be considered an allowable conservation practice.

C&MS also permitted meat products from delisted plants to be imported if the foreign country inspection officials certified that they were processed prior to the effective date of delistment and if they passed inspection at the ports of entry. Also C&MS had not reviewed foreign meat plants as often as it considered desirable and needed to improve inspections at U.S. ports of entry or other destination points.

The Department stated, in response to our report, that many of our recommendations for improvement had been implemented. Because a review of C&MS records showed apparently serious deficiencies at some delisted plants which did not result in the plants' being classified as health hazards, we expressed the belief that C&MS might need to broaden its criteria for determining when products produced prior to delistment should be prohibited from entering the United States. (See Appendix, Section I, Item 11.)

Forestry and Conservation Activities

The Agricultural Stabilization and Conservation Service shares with farmers the cost of carrying out practices to build soil and conserve soil and water. Our review in five States showed that, although significant benefits had been realized under the program, substantial amounts had been spent on practices that had not produced any appreciable benefits, that had stimulated agricultural production rather than provided lasting conservation benefits, or that were otherwise questionable. Also, improvements were needed in the method of allocating funds to States, in directing efforts

toward solving the most urgent conservation problems, and in reporting procedures. The Department informed us that it had taken or proposed to take action to correct these problems.

We found also that nominal payments ranging from 40 cents to \$14 each—designed to provide additional assistance to operators of small farms—did not further program objectives and were an administrative burden. Consequently, we recommended that the Congress amend the act to eliminate the nominal payments and thereby free about \$7 million annually which could be used to enable thousands of additional farmers to participate in the program. (See Appendix, Section I, Item 86.)

Construction of many watershed improvement and flood control projects administered by the Soil Conservation Service (SCS) had been delayed or terminated prior to completion. In a survey to determine the reasons for the terminations or delays, we found that the major cause was the failure or delay of local sponsors to acquire the land, easements, or rights-of-way needed for the projects.

The failures and delays resulted in (1) expenditures of Federal, State, and local funds on projects that may never be completed, (2) significant increases in project costs due to general rises in construction price levels, and (3) long delays in realizing benefits from projects that may eventually be completed.

SCS agreed that difficulty in acquiring land rights was a major deterrent to steady progress in completing watershed projects. Actions taken or planned by SCS should provide greater assurance that future projects will not be unduly delayed or terminated prior to completion because of landrights problems.

We suggested alternative actions, including possible legislation, for the Congress to consider concerning the projects that were being delayed many years beyond original target dates. (See Appendix, Section I, Item 90.)

The Forest Service, in carrying out a research program authorized by the McSweeney-McNary Forestry Research Act of 1928, had not fully identified and exploited the opportunities for assisting Federal, State, and private landowners in managing forest resources. Procedures needed to be established to insure that (1) the best possible use was made of research program results and (2) research officials were furnished with feedback of information which could be useful in planning and directing future work. We recommended, among other things, that an official or officials design-

nated by the Chief, Forest Service, be made responsible for coordinating the use of research findings and for deciding on the extent to which the findings are to be applied throughout the Forest Service. Subsequently the Forest Service issued instructions that the duties of research coordinator be assigned to a principal staff officer of each regional forester. (See Appendix, Section I, Item 140.)

The Forest Service and the Soil Conservation Service spent about \$20 million a year in operating and maintaining about 25,000 motor vehicles. One of our reports to the Secretary of Agriculture concerned improvements needed in the management of these vehicles. (See Appendix, Section I, Item 236.)

Rural Development Activities

The Farmers Home Administration (FHA) makes loans from the Agricultural Credit Insurance Fund and the Rural Housing Insurance Fund, sells the borrowers' notes to investors, and uses the proceeds to finance additional loans. Of the combined operating losses of \$104 million at March 31, 1970, about \$77 million represented interest paid to investors at rates in excess of the rates charged borrowers.

Future losses could be minimized if FHA could finance new loans through borrowings from the Treasury rather than through sales of notes to investors. We therefore suggested that the Congress consider amending the legislation which requires FHA to finance the loan programs through such sales.

We suggested also that the Congress consider removing the 5-percent limitation on rates charged borrowers on loans from the Agricultural Credit Insurance Fund and providing, instead, that the rates be based on market yields on outstanding Government obligations of comparable maturities and be adjusted in accordance with the borrowers' abilities to pay. (See Appendix, Section I, Item 60.)

FHA makes loans for the development of rural recreational projects under three loan programs. Our review showed that the programs provided benefits to a limited number of rural residents because the projects served only a small percentage of the residents of rural areas; served primarily urban, rather than rural, residents; had membership restrictions which limited the use of the facilities to organization members only; and/or charged fees that were beyond the ability of many rural residents to pay.

The scope of the programs had been decreased in recent years as a result of FHA's increasing realiza-

tion that the programs, as constituted, were not meeting their objectives. Because of the limited extent to which the projects had served rural residents, we recommended that the Congress consider the matters discussed in our report with a view to determining whether the recreation loan programs should be continued and, if so, what form the programs should take. (See Appendix, Section I, Item 58.)

Other Work

We reported to the Secretary that management controls over certain manual aspects of the Department's computerized payroll system needed strengthening to increase the system's efficiency and effectiveness and to minimize the possibility of improper manipulation of the information in the system. (See Appendix, Section I, Item 187.)

Audit work in process at June 30, 1972, included reviews of such activities as economic opportunity cooperative loans, water and sewer loans, peanut price support, reforestation, and utilization of timber. Work in process at that date also included reviews of the child feeding program, State meat inspection systems, and sanitation conditions at fruit and vegetable plants receiving Federal grading service.

Department of the Army Corps of Engineers (Civil Functions)

We completed five congressional reports on reviews of activities of the Corps of Engineers: three to the Congress and two to Members of Congress. In addition, nine reports were issued to Department or agency officials.

In one of the reports to the Congress, we stated that the Corps had leased Federal land for agricultural purposes at negotiated rates which did not provide a return to the Government consistent with the cost of the land and that the rentals generally were less than those for comparable privately leased lands in the area. The rentals under some leases were lower than the price-support and acreage-diversion payments made to the lessees by the Department of Agriculture. Also, contrary to legislative intent, some leased properties were being operated by individuals other than the former owners or tenants.

In response to our recommendations, the Department of the Army stated that the Corps would analyze

its existing policies and practices for leasing project lands for agricultural purposes and would, in future rental appraisals, consider the impact of price-support payments and other economic factors affecting rental values. (See Appendix, Section I, Item 237.)

In another report to the Congress, we stated that pollution from existing and future development in the area of the Burns Waterway Harbor, Ind., unless adequately controlled, would adversely affect the Indiana Dunes National Lakeshore Park area, which is being developed in the general vicinity of the Harbor. In response to our recommendation, the Departments of the Army and the Interior and the Environmental Protection Agency agreed to coordinate their efforts to insure that the Dunes will not be adversely affected by industrial development.

We also questioned the adequacy of the assurances obtained by the Corps from the State of Indiana that the arrangements and schedules for providing public terminal and transfer facilities would support the traffic on which the Burns Waterway Harbor project benefits were based and that such facilities would be financed on a self-liquidating basis. The Department of the Army believed, however, that the State had demonstrated the ability and the intent to provide the facilities as needed. (See Appendix, Section I, Item 89.)

The third report to the Congress concerned the dredging activities of the Corps, which uses its own dredging equipment and also contracts with private dredging firms, in maintaining navigation channels and harbors. Industry claims that it should be allowed to perform this work. Because of various factors requiring consideration, we recommended that the Congress provide guidance to the Corps on its role in meeting future dredging requirements.

We also recommended that the Congress consider the Corps' practice of developing estimates for bid purposes on the basis of fair and reasonable contractor costs, plus 25 percent, which is inconsistent with existing legislation which requires that the estimate be based on in-house costs plus 25 percent.

In response to our recommendations to the Corps, it agreed to correct certain inconsistencies in cost accounting and cost-estimating procedures for bid purposes and to revise its regulations to prohibit the practice of permitting low bidders whose bids are in excess of the Government's estimate, plus 25 percent, to voluntarily reduce their bids after bid openings. (See Appendix, Section I, Item 91.)

In a report to the Secretary of the Army, we recommended that the Corps develop procedures for negotiating cost-sharing agreements before permits are issued allowing industries to deposit solid waste into navigable waters. (See Appendix, Section I, Item 92.)

Audit work in process included reviews of the estimating of construction costs and completion dates and the management and operation of water resources projects, including land acquisition policies and practices at Corps reservoirs, and the effectiveness of reservoir water releases in improving stream water quality.

Department of Housing and Urban Development

We completed 15 congressional reports on reviews of activities of the Department of Housing and Urban Development (HUD): three to the Congress and 12 to committees or Members. In addition, 10 reports were issued to HUD officials. The reports dealt principally with HUD activities involving urban renewal; mortgage financing; housing assistance; and community development, including model cities.

In one of our reports to the Congress, we stated that the reuse of existing housing designs in the construction of public housing would result in more timely availability of housing to meet the needs of low-income families and in reduced costs to the Federal Government.

HUD believed that the reuse of existing designs could result in economies in time and cost but stated that there were constraints limiting the degree to which their reuse would produce savings. HUD believed, however, that it would be desirable and feasible to encourage greater reuse of superior designs by LHAs. In our opinion the use of only superior designs would limit the number of designs available for selection by LHAs and preclude the use of many attractive and suitable designs. (See Appendix, Section I, Item 63.)

Another report to the Congress concerned HUD's progress in stimulating communities to adopt and carry out local housing code enforcement programs, which they must do to be eligible for Federal housing programs. The objectives of HUD's code enforcement grant program—under which it assists communities financially in enforcing housing codes—are to prevent the spread of blight and to preserve good neighborhoods. Of the 29 communities included in our review, 28 did not have effective citywide code enforcement. Consequently, housing deterioration and decay had not been arrested.

The objectives of the program could have been enhanced if HUD had approved federally supported code enforcement projects only in areas where housing was basically sound and could have been restored by enforcing codes and if HUD had administered the program more efficiently. Although the emphasis of the program was to be on improvement of housing, about 54 percent of the funds were approved for public improvements, such as streets and sidewalks.

HUD stated that, in its opinion, the program had become a steadily more productive means of conserving the Nation's housing supply but that management improvements and administrative changes were planned to further improve the program. (See Appendix, Section I, Item 7.)

In the third report to the Congress, we reported on our audit of the financial statements of the National Flood Insurance Program for fiscal year 1970.

In response to a report to the Secretary of HUD on the administration of the Neighborhood Facilities Grant Program, HUD stated that it recognized that there were weaknesses in the program and that it had taken a number of actions to improve its administration. These actions included implementing recommendations made by a HUD task force, holding preliminary meetings with the Department of Health, Education, and Welfare to explore ways in which its social service programs could be included in the neighborhood facilities program, and initiating a review to determine the types of services being provided. (See Appendix, Section I, Item 5.)

In response to another report to the Secretary, HUD stated that it had taken or planned to take a number of actions to improve the administration of the open-space land program. For example, grantees will be required to report regularly to HUD on whether open-space land is being used in accordance with the provisions of the grant contracts, and grantees not submitting this information will be subject to site visits and appropriate HUD action. HUD stated also that a new open-space project selection system and the establishment of a number of HUD area offices would make it possible for HUD to be more familiar with local situations. (See Appendix, Section I, Item 6.)

Audit work in process included reviews of property management and disposition policies and practices; opportunities to improve effectiveness and reduce costs of homeownership and rental assistance programs; policies and practices relating to acquisition of existing structures for low-rent public housing; and HUD

activities involving land sales registration, urban renewal, model cities, community development, housing assistance, mortgage financing, special insurance operations, and Department-wide financial administration and management.

Department of the Interior

We completed 15 congressional reports on our reviews of Department of the Interior operations: six to the Congress and nine to committees or Members. Also we issued seven reports to Department officials.

Of the reports to the Congress, five related to water and power activities, seven to Indian affairs, and three to Department responsibilities for natural resources and territorial affairs.

Water and Power Activities

In one of our reports to the Congress, we stated that the Bonneville Power Administration's wheeling charges—fees charged for transmitting non-Federal power over Federal transmission systems—had been inadequate to recover the cost of providing the services in fiscal year 1970 because (1) the wheeling rates did not reflect current operating costs, (2) the rates had not been applied consistently in establishing charges, and (3) inappropriate adjustments had been made to reduce the wheeling charges to certain customers.

Bonneville revised its wheeling rates effective January 1, 1971, as a result of our recommendations, but it generally disagreed with our recommendations for (1) establishing specific criteria for determining wheeling rates, (2) applying the rates consistently, and (3) amending its contracts at the earliest possible date to eliminate inappropriate reductions in charges to certain customers. We continue to believe that the actions recommended are necessary to recover from customers the full cost of wheeling services. (See Appendix, Section I, Item 93.)

Another report to the Congress concerned improvements needed in the financial activity of the Federal hydroelectric system in the Missouri River Basin. The Bureau of Reclamation usually publishes annual rate and repayment studies showing whether electric power rates are adequate to repay the Federal investment in Federal power systems within the required 50 years. However, since 1963, the Bureau had not published annual studies for the Federal hydroelectric system in the Missouri River Basin. Our comparison of the

actual repayment of the Federal investment with what the repayment would have been under two methods of amortization showed that the Bureau was not meeting the repayment requirements under either of these methods.

The Department of the Interior stated that the Bureau would consider publishing annual rate and repayment studies but disagreed with our suggestion that a supplemental statement be prepared showing the status of repayments on a systematic basis of amortization. We continue to believe that a supplemental statement comparing actual with scheduled repayments is needed to assist in evaluating the adequacy of revenues in meeting repayment requirements.

We reported also that consolidated financial statements had not been prepared for projects in the system operated by the Bureau and the Corps of Engineers. The Departments of the Interior and the Army agreed that the Bureau and the **Corps** should have comparable and complete accounting data for the system in order to facilitate the preparation of consolidated financial statements, and the Department of the Interior agreed that consolidated financial statements should be prepared. (See Appendix, Section I, Item 174.)

In another report to the Congress, we expressed our opinion on the financial statements of the Federal Columbia River Power System for fiscal year 1971. (B-114858, Dec. 30, 1971.)

In a report to the Secretary of the Interior concerning the development of public recreational facilities at Lake Berryessa, Calif., we concluded that the Bureau of Reclamation's failure to adequately control the development of the facilities had resulted in a

situation where access to and use of the lake by the general public had been severely restricted. In response to our recommendations, the Bureau stated that it was considering various corrective actions, including taking over the management of the lake. (See Appendix, Section I, Item 57.)

Indian Affairs

One of our reports to the Congress concerned progress being made under the Indian housing program which has as its goal the elimination of substandard housing on Indian reservations in the 1970s. We reported that progress had been slow and that, unless the program was accelerated substantially, thousands of Indian families would continue to live under severe hardship conditions.

The Departments of the Interior and Housing and Urban Development attributed the slow progress, in part, to the reluctance of some tribes to obtain Federal housing assistance. Other causes included inadequate identification of Indian housing needs and inadequate design, construction, and maintenance of houses.

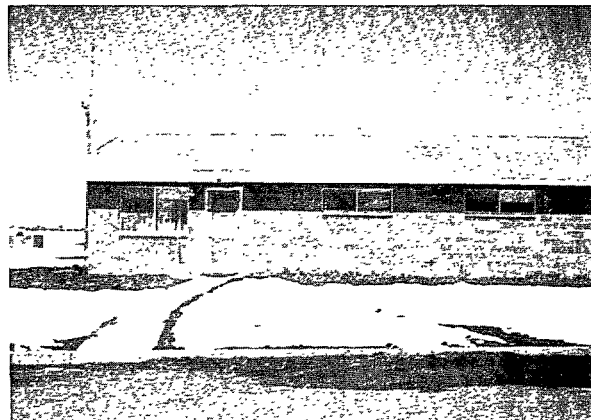
The two Departments expressed general agreement with our conclusions and recommendations and advised us of various actions that were being considered to improve and accelerate the program. (See Appendix, Section I, Item 53.)

The major goal of the Bureau of Indian Affairs' education program was to close the education gap between Indians and other Americans by raising the academic achievement level of Indian students up to the national average by 1976. The Bureau had

Unimproved home on the Navajo Reservation.



New home on the Navajo Reservation.



made relatively little progress toward attaining this goal. It had not adequately communicated the goal to its area offices and schools and had not developed specific plans for identifying and overcoming obstacles to, or for measuring progress toward, its accomplishment.

The Department of the Interior was in general accord with our findings and recommendations but considered it impractical to establish periodic milestones and make periodic evaluations of results. We believe that these measures are essential to effective program management. (See Appendix, Section I, Item 36.)

In a review made in response to a congressional request, we found that additional income could have been earned if surplus tribal trust funds under control of the Bureau of Indian Affairs had been invested at yields comparable to those earned on investments of other tribal trust funds and if individual Indian monies had been invested by the Bureau's investment officer in available securities having higher yields. We recommended that the Bureau determine and implement the most effective and economical method of realizing the maximum possible return on tribal trust funds. As to individual Indian monies, the Department stated that they were now being invested in securities offering the maximum effective interest. (See Appendix, Section I, Item 189.)

Natural Resources

The Department's Geological Survey had not evaluated adequately the reasonableness of many royalty payments on oil production from leased Federal lands because of the lack of adequate criteria for determining the value of oil and transportation costs to the nearest market. We noted several cases where the oil might have had a greater value than that used to compute the royalties due the Government.

We recommended in a report to the Congress that the Survey establish more definitive policies and procedures for use by its regional supervisors in establishing the quantity and value of oil sold or removed from leased Federal land and in determining the transportation allowance to be deducted from the oil value. The Survey agreed with our recommendations and was taking corrective action. (See Appendix, Section I, Item 56.)

Pursuant to a congressional request, we examined into the Department of the Interior's program for leasing Federal lands to be used for mining coal. At several of the strip mines we visited, the land reclama-

tion work was not fully satisfactory. The Department's regulations strengthening reclamation requirements did not apply to leases issued before January 1969 but, as a result of our recommendation, the Department's Geological Survey issued guidelines for enforcing the requirements that were contained in leases issued before that date.

Only limited mining of coal had been conducted on leased Federal lands. We recommended that the Department consider discontinuing the issuance of leases which permit lessees to defer or suspend mining operations without justification.

Equitable royalties had not been received for coal produced on Federal lands, partly because increases in royalty rates could be made only at 20-year intervals. We recommended that the Department study the desirability of seeking a change in the law that would permit adjustment of royalty rates and other lease terms on a more timely basis. The Department informed us that it was reviewing its coal-leasing program and would consider our recommendations. (See Appendix, Section I, Item 55.)

Audit work in process included reviews of the adequacy of the interest charged by the Government on its repayable investments in water resources projects, the adequacy of rates for recovering the Federal investment in power facilities, the policy limiting landowner use of federally subsidized irrigation water to 160 acres, the financial operations of the Southwestern Federal Power System, the proposed conveyance of submarginal lands to Indian tribes, the results achieved in awarding Federal grants to States and local communities for recreation, and the administration of mining claims on public lands.

Department of Transportation

We completed 13 congressional reports on our reviews of Department of Transportation operations: one to the Congress and 12 to committees or Members. In addition, six reports were issued to Department or agency officials.

Our primary audit effort at the Department was directed to programs of the Federal Highway Administration (FHWA) and the Federal Aviation Administration (FAA). Other audit work related to various activities of the U.S. Coast Guard, the Urban Mass Transportation Administration, and the National Railroad Passenger Corporation.

The report to the Congress concerned progress and

RESOURCES AND ECONOMIC DEVELOPMENT

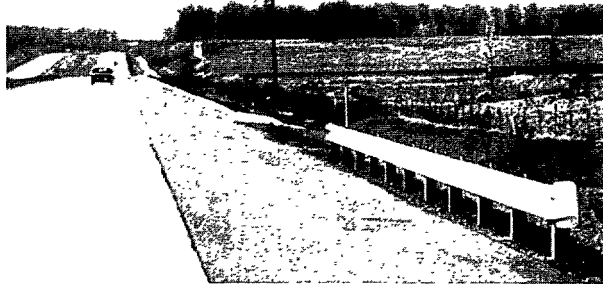
problems in urban and transportation planning, which was being carried on, with support from the Department of Housing and Urban Development and the Department of Transportation, in every major metropolitan area. We stated that planning in Detroit, Mich., where our review was concentrated, had made and should continue to make some contributions to urban growth by developing plans for land use and transportation systems. Because of difficulty in getting numerous independent governmental units to agree on a master plan, however, it appeared that the planning process would not have a major impact in directing future area development toward the most desirable growth patterns. The situation in Detroit may have been indicative of problems confronting many other major urban areas with similar complex governmental structures.

In line with our proposals, the Federal Highway Administration agreed to revise its guidelines to include the planning objectives set forth in the 1970 Federal-Aid Highway Act and to consider ways to help overcome local opposition to areawide plans. The Department of Housing and Urban Development agreed that improvements in planning and implementing urban development plans were desirable and included several policy changes in legislation proposed to the Congress. (See Appendix, Section I, Item 9.)

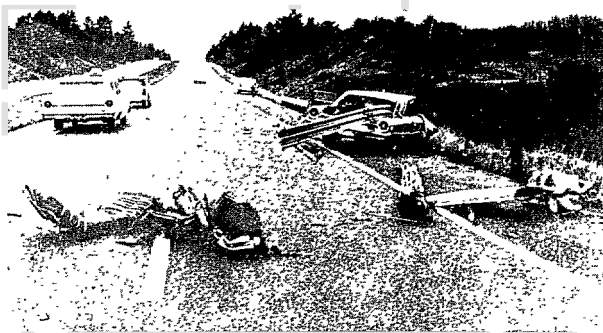
At the request of the Chairman, Senate Committee on Public Works, we inquired into the factors affecting the lengthy process of planning highways. The planning process averaged 8.7 years for the 10 projects we reviewed. We noted that, although the lengthy process was largely attributable to Federal requirements, the time taken to meet the Federal requirements and to process a highway project to the construction stage was, to a great extent, controllable by the States. We suggested in our report to the Chairman that the Committee discuss with FHWA the possibility of obtaining earlier public participation on the environmental impact of highways and on the use of parkland for highways. (See Appendix, Section I, Item 50.)

At the request of a Member of Congress, we examined into selected aspects of the management and use of Washington National and Dulles International Airports. Our report traced the development of the two airports, plans for modernization and expansion, the use of stretch jets at National and its effect on traffic at Dulles, and the concern over imbalance in the use of the airports. (See Appendix, Section I, Item 3.)

At the request of two Members of Congress, we reviewed the construction of two parts of Interstate



Above: Failure to bury the end of guardrails is a common guardrail hazard. Below: An example of a vehicle which hit the unburied end of a guardrail.



Route 71 in Cleveland, Ohio, to determine why construction problems had been encountered. We reported that the State and FHWA had failed to (1) thoroughly review construction plans, (2) require compliance with plans, and (3) change the specified completion date when difficulties which obviously would delay completing the highway were encountered. The State and FHWA authorized or permitted the use of other-than-normal construction methods and procedures in an attempt to meet the target date for completion. Construction problems increased contract costs by \$6.4 million.

Many of the problems encountered might have been avoided or minimized if FHWA had made a thorough review of the project plans and made more thorough and timely field reviews. FHWA agreed to bring the report to the attention of its division offices to emphasize the importance of making thorough reviews of project plans and specifications and effective inspections of projects. (See Appendix, Section I, Item 49.)

In a report to the Chairman, Subcommittee on Investigations and Oversight, House Committee on Public Works, on problems in implementing the highway safety improvement program, we commented that the

limited progress made since inception of this program in 1964, when viewed in light of the deaths and injuries associated with highway hazards, raised a question as to whether the Department of Transportation had taken all feasible action to implement a high-priority program to deal with the problem of highway hazards.

We suggested that the Subcommittee consider the need for legislative action to establish a viable Federal highway safety improvement program. Determinations by the States and the Department as to the magnitude of the overall highway hazard problem in the States could provide the Subcommittee with a basis for determining an appropriate level of funding for the program. Our representatives testified at hearings held by the Subcommittee on June 21, 1972, concerning the matters discussed in our report. (See Appendix, *Section I*, Item 51.)

Audit work in process at June 30, 1972, included reviews of programs related to FAA's aircraft certification activities and air traffic control at high density airports; Federal agencies' programs for relocating persons and businesses under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970; the Coast Guard's aids to navigation program; the effectiveness of railroad passenger service provided by the National Railroad Passenger Corporation (AMTRAK); and the manner in which the Department controls the transportation of hazardous materials.

Atomic Energy Commission

We completed seven congressional reports: three to the Congress and four to committees or Members. In addition, five reports were issued to officials of the Atomic Energy Commission (AEC) on various activities of AEC.

At the request of the Joint Committee on Atomic Energy, we reviewed the procedures followed by AEC's regulatory staff for reviewing applications to construct and operate nuclear power reactors. AEC is responsible under the Atomic Energy Act of 1954, as amended, for insuring that the construction and operation of nuclear facilities will not result in undue risk to the health and safety of the public.

The AEC regulatory staff had recognized the need for additional guidance, procedures, and techniques to improve the application review process; however, actions had not been taken or had not been adequate to

effect needed improvements. One of the primary reasons for this situation was that AEC's regulatory management did not give priority to improving the review process but concentrated its available resources on reviewing individual cases.

We made a number of recommendations directed at improving the efficiency of the review process. AEC took actions to implement each of our recommendations. (See Appendix, *Section I*, Item 190.)

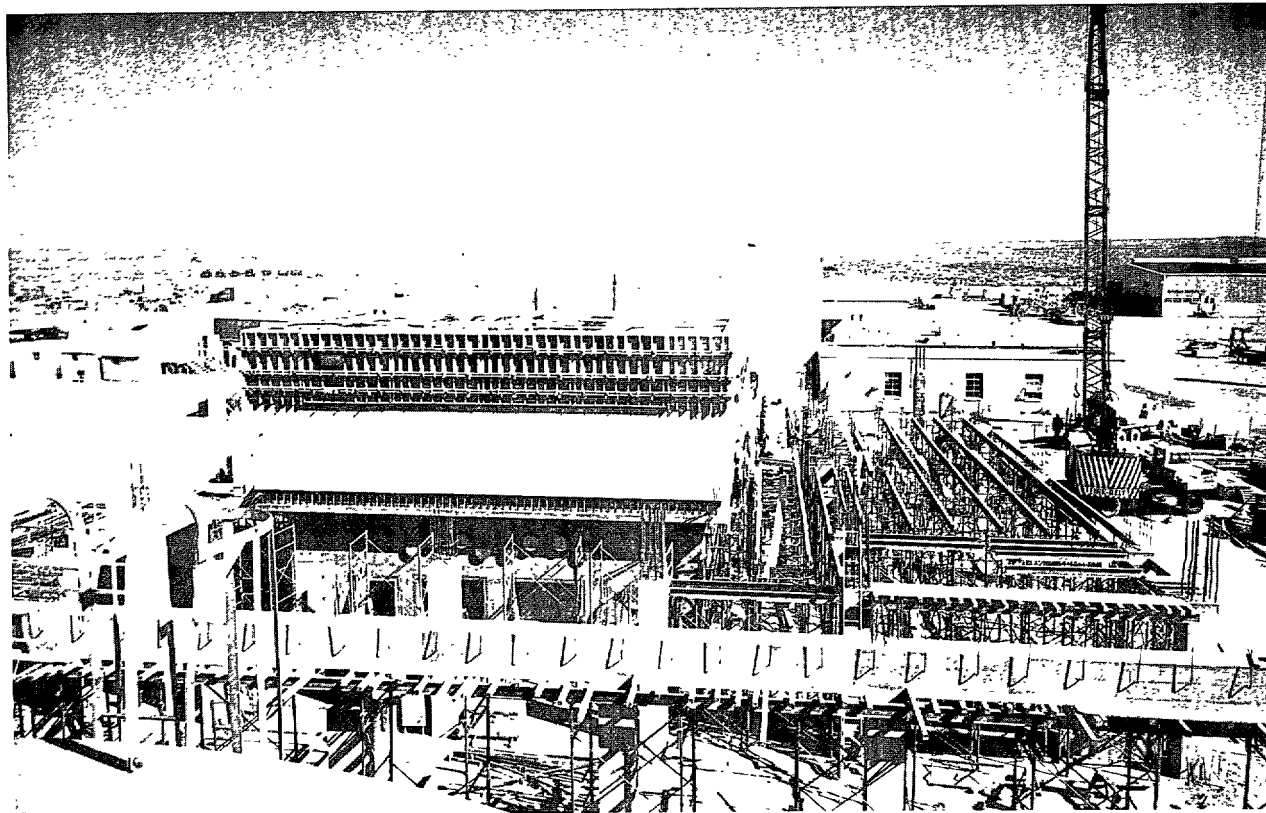
In a report to the Congress, we pointed out that AEC's method of assigning costs to individual nuclear weapon systems could result in distorted cost information. When requested by the Congress, AEC has provided estimates of the total costs of producing its portion of individual nuclear weapon systems. Because of AEC's method of assigning costs to each weapon system, however, these estimates did not provide an adequate basis for identifying cost growth which may have occurred on each system.

In response to our recommendations, AEC agreed to (1) develop procedures for more accurately assigning cost variances to individual weapon systems and (2) provide the Congress annually with information on the costs of producing individual weapon systems and explain any significant differences between current and prior cost estimates. (See Appendix, *Section I*, Item 175.)

In another report regarding the cost, schedule, and design aspects of five AEC construction projects, we informed the Congress that AEC had experienced significant changes in the estimated construction costs and significant delays in the estimated completion dates on certain of these projects. Also significant design changes had been made on each of the five projects, some of which had contributed to the increases in the estimated costs and to the extensions in the completion dates for certain of the projects.

With respect to one of these projects, we suggested that the contractor's practices for developing the current working cost estimates reported to AEC should be strengthened to provide a better basis for effective analysis and evaluation. AEC agreed and took steps in accordance with our suggestion to improve these practices. (See Appendix, *Section I*, Item 155.)

In a report to the Chairman, AEC, we pointed out that AEC's two nuclear design laboratories followed different operating practices for testing nuclear weapons. These differences, which involved the determination of the depth of holes necessary to contain radioactivity underground, the use of steel casings in the



View of the hot fuel examination facility under construction at the National Reactor Testing Station, Idaho Falls, Idaho.

holes, and the methods of obtaining yield measurement and other information after the test, often resulted in significant variations in costs. AEC agreed with our recommendations and established a study group to identify and evaluate significant differences in laboratory practices and to encourage the adoption of those practices most appropriate from both a cost and programmatic standpoint. (See Appendix, Section I, Item 188.)

In another report to the Chairman, AEC, we presented information concerning the manner in which AEC's chemistry research program was being managed. Our report included comments concerning (1) budgeting and financial control, (2) establishment of research priorities, and (3) review procedures. We noted certain areas where it appeared that opportunities existed for improving procedures to provide AEC and laboratories with better information concerning the direction and results of the research program, and we made several suggestions to AEC in this respect. AEC agreed to take action on each of our suggestions. (See Appendix, Section I, Item 186.)

Audit work in process included reviews of AEC's (1) controlled thermonuclear research program at the request of the Joint Committee on Atomic Energy and (2) regulation of users of radioactive materials.

Environmental Protection Agency

The Environmental Protection Agency (EPA) was established pursuant to Reorganization Plan No. 3 on December 2, 1970. EPA comprises the former activities of (1) the Federal Water Quality Administration, Department of the Interior, (2) the National Air Pollution Control Administration, Department of Health, Education, and Welfare (HEW), (3) the Bureau of Solid Waste Management, Water Hygiene, and Radiological Health, Environmental Control Administration, HEW, (4) the Division of Radiation Protection Standards, Atomic Energy Commission, and (5) the Departments of Agriculture, the Interior, and HEW activities related to pesticides.

We completed six congressional reports on activities

of EPA and its predecessor agencies: three to the Congress and three to committees or Members. These reports dealt with solid waste disposal and water and air pollution.

In a report to the Congress on EPA's solid waste disposal demonstration grant program, we stated that the demonstration grants had had little impact on the national solid waste disposal problem. Few grants had been awarded *for* projects concerned primarily with recycling—cited by many, including the Senate Committee on Public Works, as the only long-term solution to the solid waste problem. Some grants for projects to demonstrate new and improved techniques were, in reality, for mere refinements of existing disposal methods. We identified several factors which had contributed to the limited effectiveness of the program. EPA generally agreed with our proposals for improvement and took or planned to take appropriate steps to implement them. (See Appendix, Section I, Item 85.)

Another report to the Congress concerned Federal and State enforcement efforts to abate water pollution. Since 1970 Federal and State programs have been improved substantially and enforcement actions have been pursued vigorously, although more could be done.

Under the Federal Water Pollution Control Act, EPA can take enforcement action only when water pollution has occurred, that is, when a discharge has endangered health and welfare or has lowered the quality of the water. Even with testing it may be difficult to relate a change in water quality to a specific municipal or industrial discharge. Enforcement actions would be easier if EPA had authority to establish treatment requirements before pollution became a problem. Also the act does not permit swift action to halt the discharge of pollutants into interstate waters.

Proposed legislation, if enacted and effectively implemented, should resolve the major problems noted in our review. (See Appendix, Section I, Item 82.)

In a third report to the Congress, we stated that EPA's progress in controlling auto-caused air pollution and in developing new ways of reducing it had been limited to the certification of prototype cars as meeting emission standards, but even here we noted weaknesses in that the manufacturers' tests were used as the sole basis for certification. Assembly line testing was not

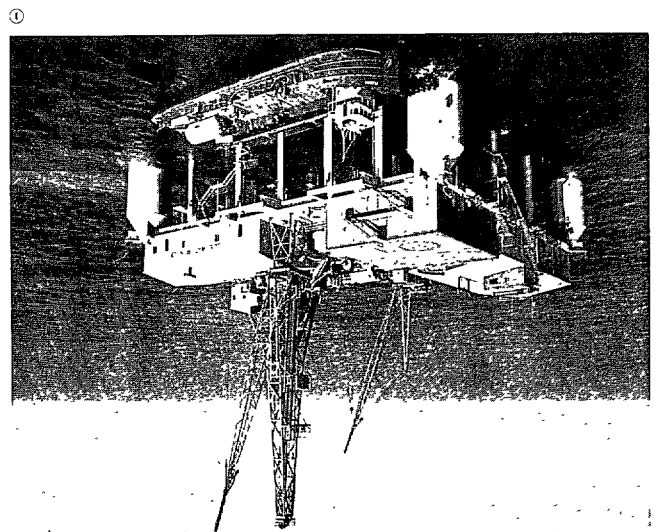
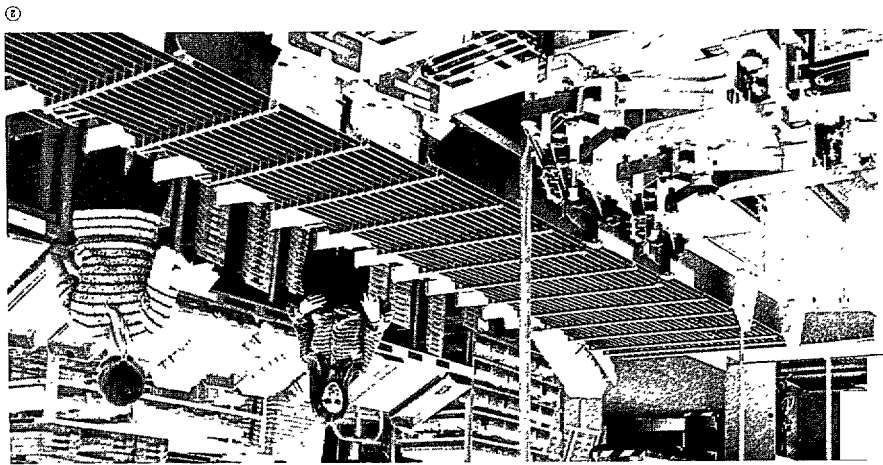
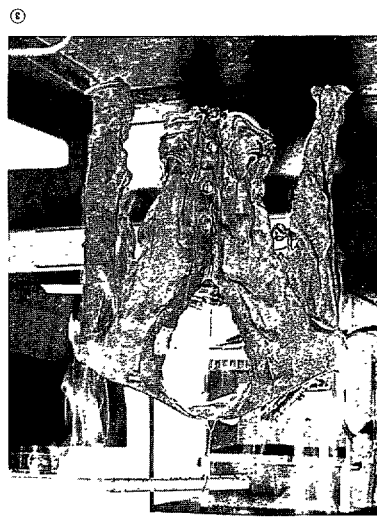
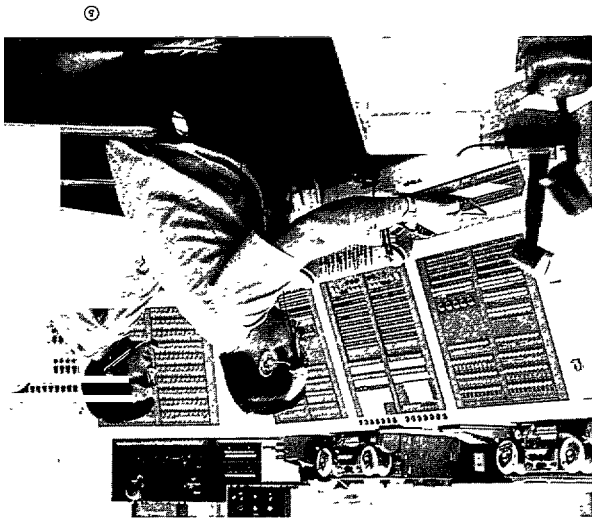
scheduled to begin until at least the 1974 models were placed into production.

Perhaps the most important step in controlling auto emissions is the periodic inspection of vehicles in use. EPA plans provided that, if a substantial number of a particular model were found not to conform to emission standards, the manufacturer would be required to recall such models for modification—beginning with the 1972 models. However, there was no mandatory requirement that the owners return cars for modification. In recalls for safety hazards, only 30 to 40 percent of the recalled autos were returned. We suggested that the Congress consider the need for additional legislation to require car owners who have been notified that their cars' emissions exceed established standards to return them for modification.

EPA's program to find an unconventional, low-polluting automobile engine, which began in 1969, moved at a slow pace and, in our opinion, down too many trails. In July 1971 EPA decided to discontinue work on engine systems requiring long-term development and to concentrate its resources on the most promising engines; namely, the gas turbine, the **Ran**-kine cycle engine, and the stratified-charge engine. (See Appendix, Section I, Item 83.)

At the request of the Chairman, Subcommittee on Air and Water Pollution, Senate Committee on Public Works, we examined into various matters concerning the enforcement of and compliance with Federal regulations regarding the certification of motor vehicles for conformity with Federal emission standards. Under the regulations unauthorized maintenance may not be performed on prototype vehicles being tested for certification. We expressed the opinion that, in view of the limited staff EPA assigned to motor vehicle certification activities and the lack of in-plant monitoring by EPA of compliance with certification regulations, EPA did not have reasonable assurance that the auto companies had complied with the regulations concerning maintenance. (See Appendix, Section I, Item 81.)

Audit work in process as of June 30, 1972, included reviews of the water pollution research and development program, air pollution control enforcement activities, water hygiene, agency actions to remove pesticides from the channels of trade, and policies relating to solid waste management.



CHAPTER ELEVEN

GENERAL GOVERNMENT
OPERATIONS

Responsibilities

The General Government Division has primary responsibility for carrying out our audit work at the Departments of Commerce, Justice, and Treasury; the District of Columbia Government; the Small Business Administration; the United States Postal Service; certain regulatory agencies; the legislative and judicial branches; and various other agencies and commissions. This division is under the supervision of Victor L. Lowe, Director, and George H. Staples, Acting Deputy Director. Its organization chart appears on the following page.

During fiscal year 1972 a total of 57 reports was submitted to the Congress on audits or reviews made by, or under the direction of, the General Government Division. Of these reports, 16 were submitted to the Congress and 41 were submitted to committees, officers, or Members of Congress on reviews made in response to their specific requests. In addition, 24 reports were issued to department or agency officials. A list of these reports is included in Section III of the Appendix.

The following sections of this chapter describe briefly, under departmental or agency headings, the principal audit and review work performed by, or under the direction of, the General Government Division, the audit findings, and the actions taken or comments made by the departments or agencies on the reported recommendations and suggestions for improving

their operations. More detailed descriptions of these findings and recommendations and descriptions of those included in other reports prepared by the General Government Division are contained in Section I of the Appendix.

Department of Commerce

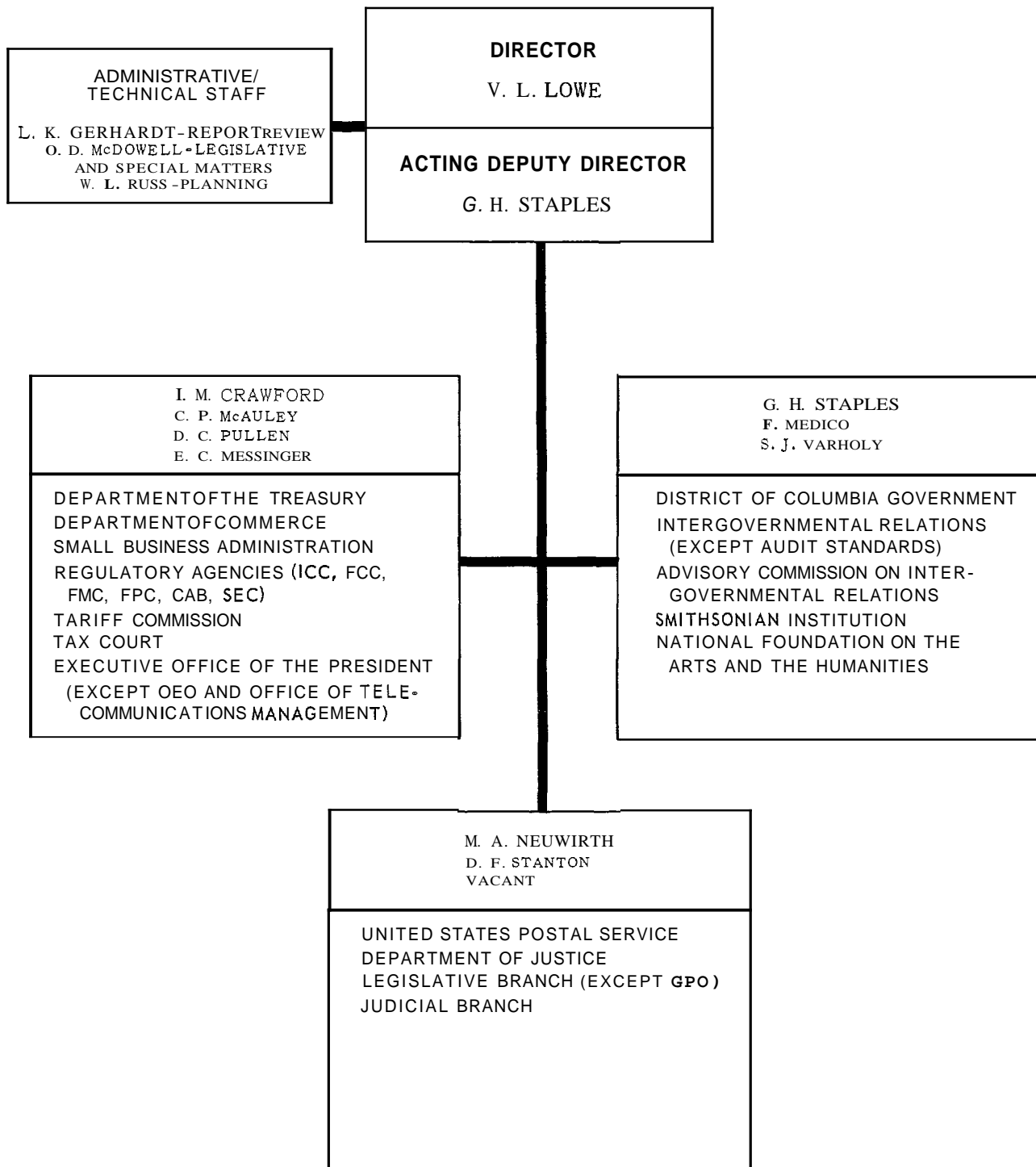
During the year we completed 12 congressional reports on reviews of Department of Commerce operations: four to the Congress and eight to its committees or Members. In addition, three reports were issued to Department or agency officials.

One report to the Congress concerned the effects of Federal expenditures on the economy of Johnson County, Ky. A large portion of the \$28.2 million in Federal assistance furnished during fiscal years 1965 through 1969 was directed to economic development, but its impact on broadening the economic base and creating new job opportunities was very limited. The impact of some of the programs, however, may not have been felt at the time of our review. We recommended that the Department's Economic Development Administration (EDA) make a comprehensive study to identify additional incentives that might encourage industry to expand in rural areas and thereby maximize the benefits from Federal economic development programs. EDA stated that some steps along these lines had already been undertaken. (See Appendix, Section I, Item 22.)

At the request of a Member of Congress, we reviewed the major Federal programs designed to deal with the unemployment and housing problems in New Bedford, Mass. Although the Federal Government committed about \$135 million in grants for fiscal years 1965 through 1971 for the betterment of the physical, economic, and social conditions of New Bedford, the city's economy continued to lag significantly behind that of the State and the Nation. There was little evidence that current efforts would significantly improve the situation. It was apparent that more emphasis should be given to some of the efforts previously made and that new approaches should be tried.

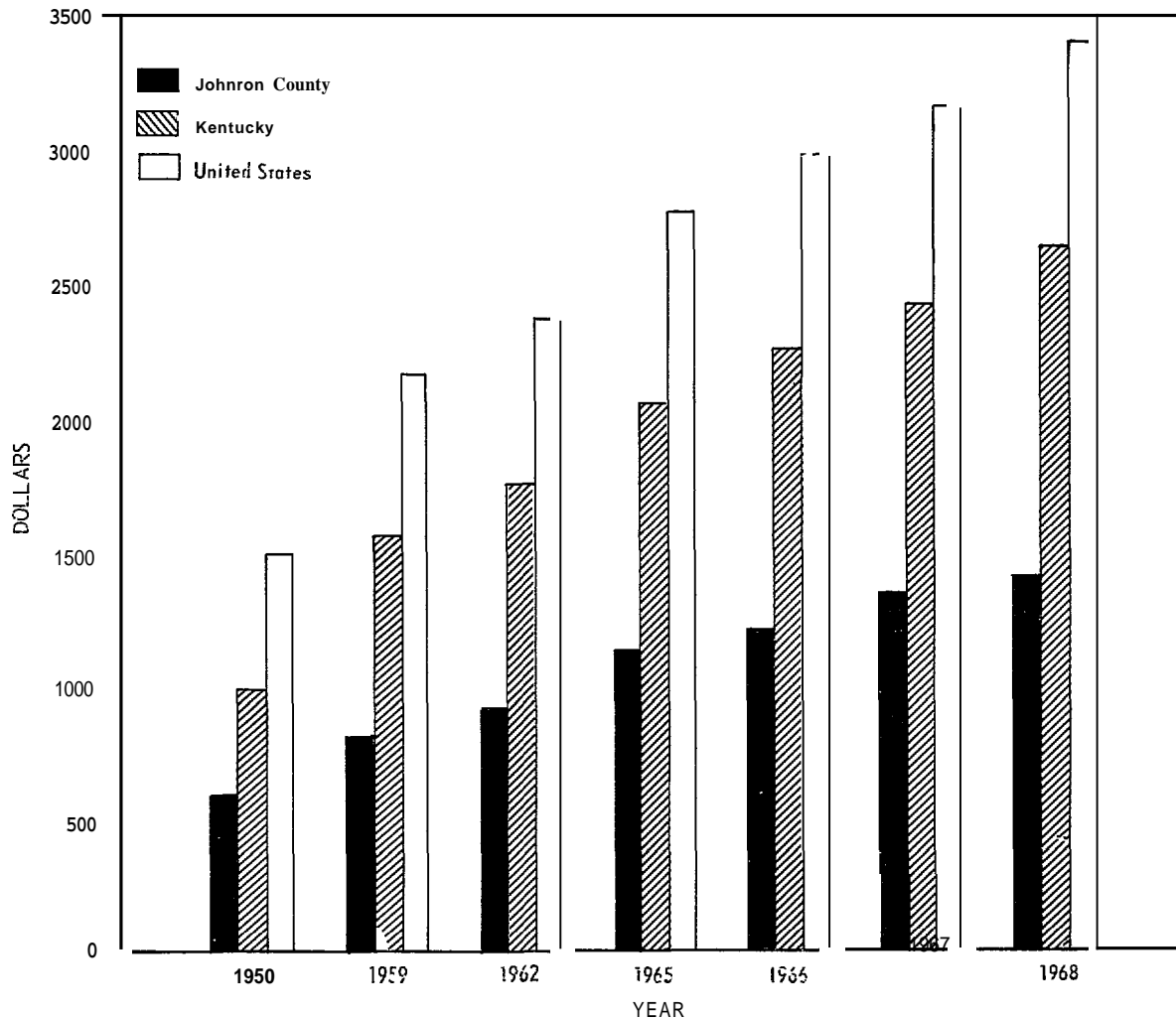
We recommended that the New England Federal Regional Council, the Small Business Administration, and EDA advise and guide the State and local governments in reassessing New Bedford's economic development plans and objectives and in pursuing the various possibilities for increasing economic activities. We rec-

GENERAL GOVERNMENT DIVISION



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PER CAPITA PERSONAL INCOME



ommended also that the Department of Housing and Urban Development insure that New Bedford gives adequate consideration to the development of a workable plan of action for housing. (See Appendix, Section I, Item 23.)

Another report to the Congress related to EDA's use of program resources to alleviate unemployment in economically distressed areas through the construction of public works. EDA provided financial assistance to many projects without first determining whether they could have been funded under other Federal programs. EDA also awarded some grants that replaced grants and loans previously awarded or tentatively committed for the same projects under other Federal programs. EDA's enabling legislation provides that EDA assistance be in addition to, and not substituted

for, assistance available under other Federal programs. Consequently, we recommended that the Secretary of Commerce require EDA to coordinate its public works programs with those of other Federal agencies and to urge adoption of changes to provide greater assurance that such agencies provide available funds before EDA provides any financial assistance. (See Appendix, Section I, Item 20.)

In another report to the Congress, we stated that annual savings of about \$664,000 could be realized by having the Maritime Administration assume the function of preserving certain Army and Navy inactive vessels located at fleet sites in Beaumont, Tex., and San Francisco, Calif. Also we recommended that the Secretaries of Commerce and Defense study the feasibility of consolidating functions at other inactive fleet

sites. Maritime and Army agreed with our recommendations. The Navy concurred with some of our recommendations but was strongly opposed to having Maritime assume responsibility for any combat ships. (See Appendix, Section I, Item 238.)

Another of our reports on the Maritime Administration recommended that the value-engineering program discontinued in June 1971 be revised and reinstated because of the substantial savings that resulted from the program and the potential for future savings. In response to our recommendations, the Maritime Administration agreed to (1) require voluntary value-engineering clauses to be included in future ship construction contracts, (2) provide that savings from accepted value-engineering proposals be shared equally by the owner and the shipyard, (3) reestablish the practice of issuing value-engineering letters to industry for its information and use, and (4) review plans and specifications prior to approval of contracts when time permitted. (See Appendix, Section I, Item 185.)

Both the National Oceanic and Atmospheric Administration, Department of Commerce, and the Department of the Navy planned to conduct deep-ocean geophysical surveys of the same areas covering some 16 million square miles. We concluded that the Administration could satisfy both its own and Navy's needs at savings to the Federal Government of about \$20 million by the early 1980s. The Navy and the Administration endorsed our proposal that they jointly plan and schedule their geophysical surveys so that the data obtained by the Administration would satisfy both agencies' requirements. We proposed also that they explore the possibility of coordinating other marine science activities, such as oceanographic surveys.

The Navy informed us that an agreement in principle had been reached on the exchange of personnel, which would insure maximum effective coordination of the planning and scheduling of geophysical surveys and which would facilitate the coordination of other marine science activities. The agreement was an important first step, but survey specifications and administrative procedures must be established, evaluated, and jointly agreed upon before effective coordination can be accomplished. (See Appendix, Section I, Item 143.)

Audit work in process included reviews of the Federal earthquake research program, the commercial fisheries financial assistance program, Federal financial

assistance to the Brooklyn Navy Yard, Maritime subsidy programs, and an evaluation of the timeliness of public works projects.

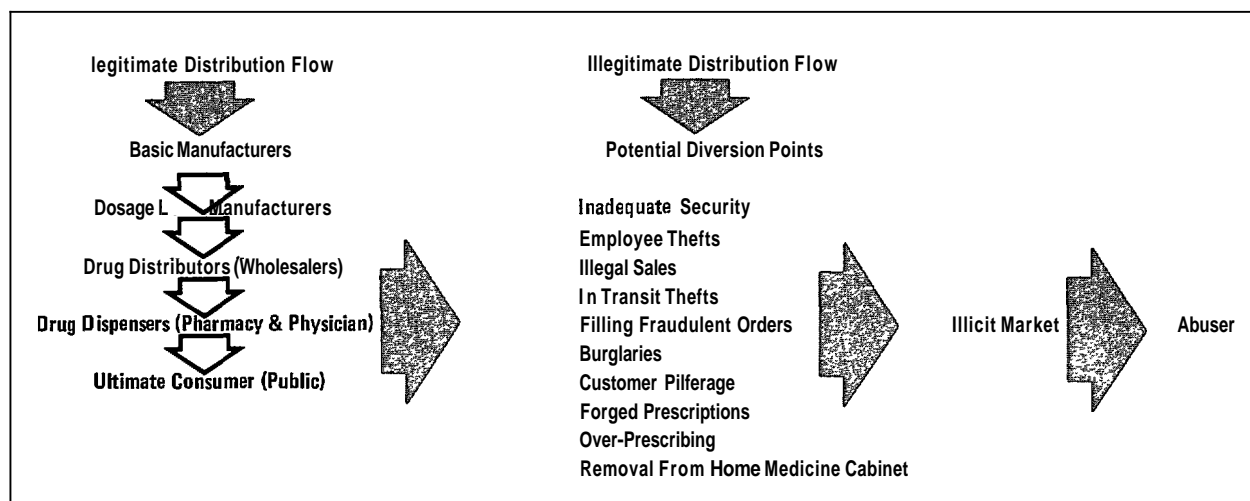
Department of Justice

During the year we completed six congressional reports on reviews of Department of Justice activities; two to the Congress and four to committees or Members.

One of the reports to the Congress concerned the efforts being made by the Bureau of Narcotics and Dangerous Drugs and others to prevent certain dangerous drugs, such as stimulants and depressants, from illicitly reaching the public. According to the Bureau, about 90 percent of the dangerous drugs in the illicit market are diverted from licensed sources. Our report showed that much more needs to be done by the Bureau, the States, local agencies, and the drug industry to reduce this diversion. The Department of Justice stated that our recommendations for improvement would be made effective, to the greatest extent possible, on a priority basis. (See Appendix, Section I, Item 176.)

In the other report to the Congress, we pointed out an opportunity for the Law Enforcement Assistance Administration (LEAA) to reduce interest costs of the Federal Government by timing advances of funds to institutions of higher education to coincide more closely with the time that students receiving loans from the institutions under LEAA's Law Enforcement Education program normally pay their tuition and other expenses. We estimated that unnecessary interest costs of about \$440,000 were incurred during the 20-month period following the program's inception because of premature advances and advances made in excess of needs. Action taken by the Department of Justice as a result of our recommendations, if properly implemented, should reduce the interest costs. (See Appendix, Section I, Item 183.)

In July 1971 we testified before the Legal and Monetary Affairs Subcommittee, House Committee on Government Operations, on the results of a review we made of LEAA's administration of its program of making block grants to State and local governments to improve their criminal justice systems. Our principal findings and conclusions concerned the slow movement of funds to subgrantees, substantial funding of projects dealing with the underlying causes of crime rather than with criminal justice systems, limited evaluation



Diversion of legitimately produced dangerous drugs.

of program and project effectiveness, and inadequate dissemination of information on research activities.

In a report to the Attorney General we commented on opportunities in the Southwest Region for the Immigration and Naturalization Service to reduce costs of returning aliens to Mexico by using Service-owned buses rather than Service-owned planes and by requesting those who are financially able to do so to pay the cost of their transportation. (See Appendix, Section I, Item 246.)

In a report to the Administrator, LEAA, we expressed the belief that significant savings could be realized if recipients of funds awarded by LEAA for the development of criminal justice information systems took advantage of the experience of others, and we cited a need for LEAA to develop a formal procedure for disseminating information on existing systems. (See Appendix, Section I, Item 54.)

Audit work in process included reviews of the enforcement functions of the Immigration and Naturalization Service relating to aliens, the purchase of title insurance in Government land acquisitions, efforts to interdict the flow of narcotics into the United States, and efforts to rehabilitate persons confined in Federal penal institutions.

Department of the Treasury

During the fiscal year we submitted one report to a congressional committee and issued four reports to Department or agency officials on activities of the Department of the Treasury.

The report to the congressional committee covered a review of the effectiveness of the Internal Revenue Service (IRS) in collecting Federal highway use taxes. The Legal and Monetary Affairs Subcommittee, House Committee on Government Operations, requested us to make the review because of reported tax delinquencies. Because we were denied access to records on tax administration, our review was restricted to an analysis of summary data made available by IRS. This data indicated that significant amounts of highway use taxes were not being collected. Our difficulties in obtaining access to records in IRS are discussed at greater length in Chapter Two.

We concluded that IRS could strengthen its enforcement of the highway use tax law by adopting a recommendation by the Federal Highway Administration (FHWA) that decals be placed on trucks for which the tax had been paid. If decals were used, FHWA could assist in enforcing compliance when making safety inspections. Although IRS acknowledged that a decal system had merit, it stated that it was going to conduct an extensive collection program in 1973 utilizing State registration data. Based on budget data submitted by IRS, it was our view that this would be an inefficient use of manpower. (See Appendix, Section I, Item 247.)

In a report to the Acting Commissioner, Bureau of Customs, we noted that claims for refund of duty paid on petroleum products might have included ineligible claims on substantial quantities of lubricating oil sold to Government agencies. We suggested that the Bureau review sales records and claims from 1967 to date

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for one particular company and that, if this review showed that ineligible claims had been paid, the review be extended to other companies. The Bureau informed us that this matter would receive its attention. (See Appendix, Section I, Item 250.)

Audit work in process included reviews of the management of trust funds, controls over collection of delinquent taxes, and the use of tax and loan accounts.

District of Columbia Government

A significant portion of our audit effort in fiscal year 1972 at the District of Columbia Government was devoted to reviews made at the request of committees or Members of Congress. Five reports were submitted to committees or Members on these reviews.

At the request of the Chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, we examined into whether the District Government had violated the Anti-Deficiency Act (31 U.S.C. 665) with respect to its fiscal year 1971 appropriations. We found that the District had violated the act by incurring obligations in excess of apportionments: Further, the District had not reported these violations to the President or to the Congress although it was required to do so by the act.

At the request of the staff director of the Subcommittee, we submitted three papers covering reviews of various District activities to assist the Subcommittee in reviewing the District's fiscal year 1973 appropriation request.

Because the Congress was considering legislation involving child-care programs, we made a study of federally funded child-care activities in the District of Columbia. There were numerous Federal programs under which funds were provided and there was a lack of coordination at the local level. These factors contributed to several problems in administration and indicated a need for consolidating and/or coordinating the programs. Prior to the issuance of our report, we made oral presentations illustrating these problems to Members of Congress, congressional staffs, child-care administering agencies, and the District of Columbia Council. A formal report on our findings was submitted to the Chairman, House committee on Education and Labor. (See Appendix, Section I, Item 35.)

In two reports to a Member of Congress, we commented on problems in financial and property administration at the District of Columbia Teachers College

and at the Federal City College. (See Appendix, Section I, Items 171 and 172.)

At the request of another Member of Congress, we reviewed activities of the Blackman's Development Center, a local organization receiving Federal funds from the District Government and others primarily for treating and rehabilitating drug addicts. Our review showed that it was not possible to establish, with any certainty, the purpose for which **all** Federal funds were used. (See Appendix, Section I, Item 16.)

In a report to the Congress on the management of motor equipment activities, we stated that the District had not made significant progress in responding to recommendations for improvement which we and the General Services Administration had previously made and that prompt action was needed to achieve a more efficient and economical operation. We recommended that the Commissioner of the District assign to a single office the responsibility and authority for surveillance of all District motor equipment activities. The District agreed with our findings and initiated action to implement our recommendation. (See Appendix, Section I, Item 239.)

In a report to the Commissioner, we commented on the need for strong housing code enforcement to reduce the risk of children's being poisoned from ingestion of leaded paint used on exposed interior surfaces of dwellings. The Commissioner informed us of the various steps taken to strengthen enforcement of the applicable housing regulations. (See Appendix, Section I, Item 52.)

In another report to the Commissioner, we noted that the supplemental food program for low-income persons was not being administered in a manner consistent with the District plan of operation that was approved by the Department of Agriculture. We were informed that corrective action would be taken. (See Appendix, Section I, Item 48.)

Audit work in process included reviews of selected activities within the public safety, housing, and consumer protection programs and a general review related to grant-in-aid and tax revenues. A report on our review of the District Government's policies for establishing regulatory fees was in process at the close of the fiscal year.

Small Business Administration

During fiscal year 1972 we submitted one report to the Congress on activities of the Small Business Ad-

ministration (SBA). This report related to a review of the Small Business Investment Company (SBIC) program in which we examined into the effectiveness of actions taken by SBA to correct significant weaknesses noted in earlier reviews.

We found that improvement was needed in SBA's monitoring of SBICs operating in violation of the Small Business Investment Act or regulations. SBA's efforts to correct violations often were unduly delayed, inconsistent, and ineffective. Poor communication and coordination among SBA organizational units contributed to these conditions. Also there was opportunity for strengthening the independence and objectivity of SBA's examinations of the SBICs and for using administrative hearings, unused since 1966, as a means of enforcing compliance with the act or regulations.

In response to our recommendations, SBA transferred the examination function from the unit primarily responsible for administering and promoting the SBIC program and informed us of other steps taken to improve administration of the program, including establishment of an independent unit to insure that corrective actions on violations are taken.

We suggested that the Congress consider the feasibility of providing SBA with legislative authority to impose fines against SBICs which fail to correct violations when directed to do so by SBA. (See Appendix, Section I, Item 62.)

Audit work in process included reviews of the effectiveness of the minority enterprise program and the Federal disaster assistance programs related to housing construction.

Smithsonian Institution

During the year we submitted a report to the Congress on our review of the Smithsonian Institution's Science Information Exchange. The Exchange was intended to be a clearinghouse for information on current research in physical, biological, and social sciences to be used for more effective planning and coordination of research and development programs supported by Federal funds.

Many Government agencies were not using the Exchange to the fullest extent because, they claimed, its data bank was not current or complete. The ability of the Exchange to provide current information was being hampered because the agencies were not furnishing needed information to the Exchange.

In response to our recommendations, the ~~Office of~~ Management and Budget (OMB) agreed to study the ~~role of~~ the Exchange. OMB stated that it would then decide whether to continue the Exchange and whether to make it mandatory that agencies report their research activities to the Exchange. (See Appendix, Section I, Item 177.)

U.S. Postal Service

The U.S. Postal Service, created as an independent establishment of the executive branch of the Government by the Postal Reorganization Act, approved August 12, 1970, began operations as successor to the Post Office Department on July 1, 1971. Most of our audit effort relating to the Postal Service during the ensuing fiscal year was directed toward reviews of charges for certain postal services and reviews of selected facilities acquisitions. We completed 13 congressional reports: four to the Congress and nine to committees or Members. Eight reports were issued to Postal Service officials.

One of our reports to the Congress concerned the use of numerous post office boxes or box numbers by many commercial firms for the purpose of having postal employees sort their mail. When only box numbers (phantom boxes) rather than actual boxes are assigned, the mail is sorted and placed in mailbags or other containers. We estimated that the cost of providing mail service to commercial firms renting multiple or phantom boxes at 80 of the large post offices exceeded revenues by about \$3.1 million annually.

In response to our recommendation that rates be adjusted to recover costs, the Postal Service informed us that box rental policy proposals would be submitted to the Postal Rate Commission which is responsible for making decisions on changes in postal rates and fees proposed by the Service (B-114874, July 19, 1971).

Another report to the Congress related to fees charged for business reply mail, which have not been changed since they were established by law in 1958. Our review at 13 postal facilities in seven cities showed that the average direct labor cost for each piece of business reply mail exceeded the average fee by 0.9 cent. About 733 million pieces of business reply mail were processed in fiscal year 1970. Information had not been compiled by which an informed decision could be made as to what fees would be required to recover the cost of providing this service. In response to our recommendations, the Postal Service said that it intended to make

a comprehensive study with the intent of submitting proposals to the Postal Rate Commission by January 1973. (See Appendix, Section I, Item 248.)

We reported also that the Postal Service had not been making proper determinations of nonprofit organizations' eligibility for reduced second- and third-class postage rates. At five post offices we reviewed the mailing privileges of 1,135 organizations whose eligibility for reduced rates seemed questionable and concluded that 115 organizations did not qualify and were undercharged \$1.5 million in a 1-year period. In view of the amount of nonprofit mail handled annually nationwide, the amount of lost revenue could be significant.

We recommended that the Postal Service review the eligibility of organizations authorized to mail at reduced rates and revoke the authorizations of those not entitled thereto. We recommended also that the Postal Service review the implementation of new guidelines adopted after completion of our review to determine whether they were being applied effectively and consistently. (See Appendix, Section I, Item 252.)

In another report to the Congress, we commented on the award by the Post Office Department of a \$22.7 million contract to purchase and install, nationwide, electronic equipment for the Postal Source Data System (PSDS), an automated data collection and processing system, without sufficient data to indicate its feasibility and the types and quantities of equipment needed. We reported that (1) installation of PSDS was behind schedule and operating costs were spiraling, (2) predicted operating savings might not be realized, (3) PSDS-generated reports were less timely, less meaningful, and less accurate than those available prior to PSDS and were, therefore, less useful to postal management, and (4) despite the many deficiencies, the Department was continuing to expand PSDS to additional post offices. The Postmaster General concurred generally with our recommendation that further expansion be suspended pending a comprehensive evaluation and cost-benefit study but stated that a limited further expansion must be completed because of commitments made for the purchase of equipment. We stated that, under the circumstances, any expansion was neither desirable nor a judicious investment of funds. (See Appendix, Section I, Item 217.)

Our reports to committees or Members of Congress related principally to various aspects of the acquisition of new postal facilities. At the request of one Member, we reviewed the selection of the site and the contract awards for the construction and procurement of equip-

ment for the New York **Bulk** and Foreign Mail Facility. We reported that (1) the Postal Service had eliminated alternative properties from consideration as potential sites for the postal facility before sufficient data had been obtained to form a reasonable judgment that the property acquired was the most feasible site, (2) procurement practices for site preparation work, architect and engineering services, and equipment could have been improved, and (3) the estimated project costs had increased by \$67.8 million, or 109 percent, over the original estimate. (See Appendix, Section I, Item 154.)

Legislative Branch

Audit work in the legislative branch included examinations at the site of operations of the following activities:

The Senate:

Senate recording studio

The House of Representatives :

The Sergeant at Arms

House finance office

House recording studio

House office supply service

House office equipment service

House beauty shop

House printing clerks

House restaurant

Architect of the Capitol:

U.S. Senate restaurants

The salaries, mileage, and expense allowances of Senators; salaries of officers and employees of the Senate; clerk hire of Senators; and other expenses of the Senate are examined on the basis of documents submitted to us.

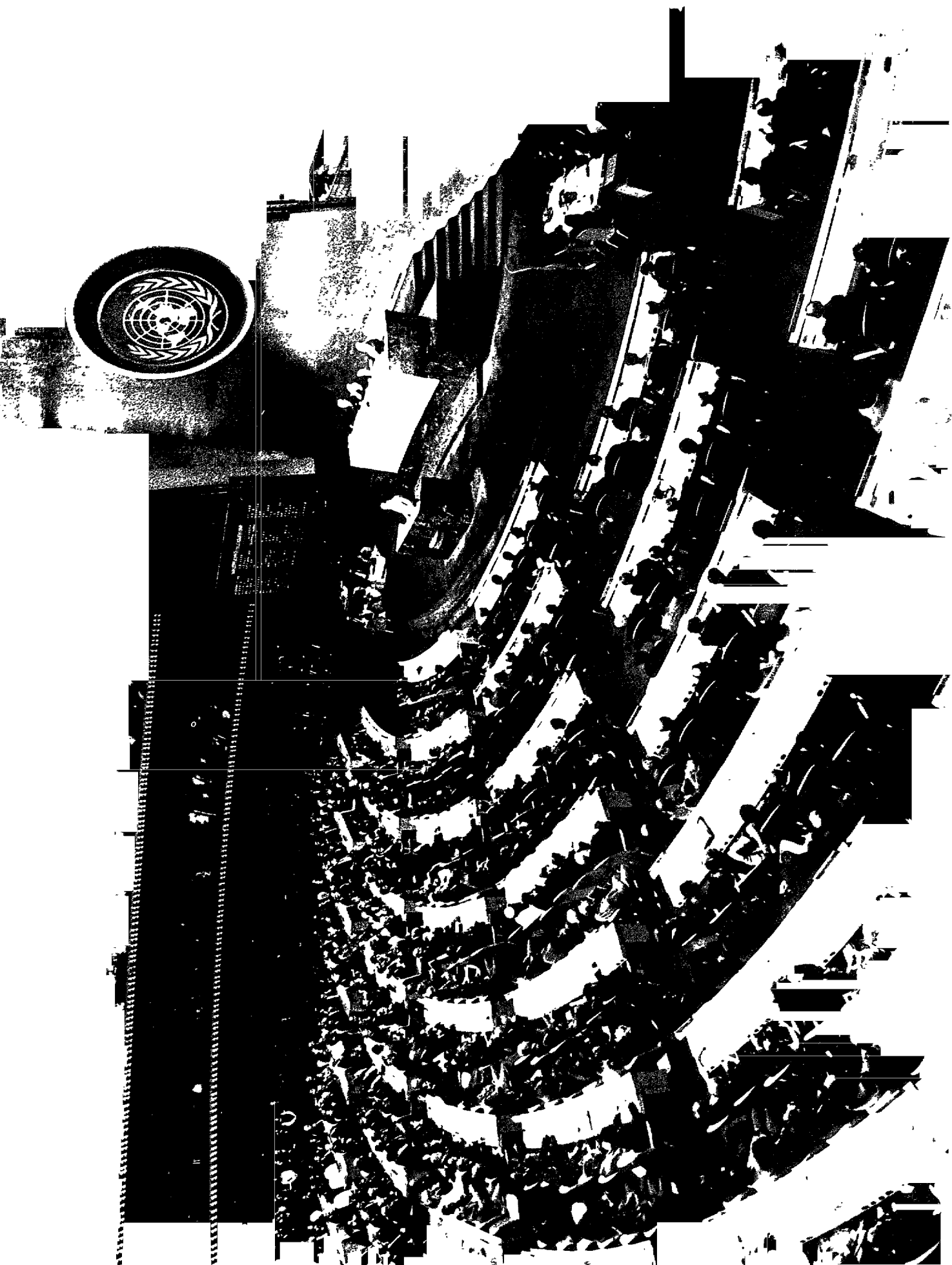
Thirteen reports on audits of activities in the legislative branch were issued during the year. Two of these reports related to activities of the Senate, nine to activities of the House, one to an activity of the Architect of the Capitol, and one to the termination of the Capitol Guide Force.

On the basis of audits made pursuant to section 451 of the Legislative Reorganization Act of 1970, we reported to the Congress on the financial statements of the Majority Printing Clerk and the Minority Printing Clerk of the House of Representatives for their 1971 fiscal years.

Judicial Branch

In March 1972 we testified before the Commission on the Bankruptcy Laws of the United States. The matters discussed centered around our review of the

activities of referees and trustees in bankruptcy and generally concerned the effectiveness of the accounting systems and administrative controls in use and alternatives for obtaining improvements in the administration of bankruptcy cases.



CHAPTER TWELVE

INTERNATIONAL OPERATIONS

Responsibilities

The International Division of the General Accounting Office is responsible for audit work relating to all U.S. Government programs and activities conducted in foreign countries and Hawaii. The division is supervised by Oye V. Stovall, Director, and Charles D. Hylander, Deputy Director. An organization chart is shown on page 122.

During fiscal year 1972 the Manila Office of our Far East Branch was relocated in Bangkok, Thailand. We believe the Bangkok location will be particularly beneficial in providing us with a better, long-range basing point for our work in that part of the world.

We issued 66 reports on international programs during the fiscal year: 13 to the Congress, 25 to committees or Members of Congress on special requests, and 28 to agency officials concerning management and operating procedures.

A number of reports on Defense operations and programs relating to international matters are also discussed in Chapter Six.

During the year we conducted audits in countries outside the United States as summarized below, including those performed at U.S. military installations abroad and U.S. possessions and territories.

| <i>Areas</i> | <i>Countries</i> |
|---|------------------|
| European Branch (Europe, Africa, Near East, and South Asia) | 24 |
| Far East Branch (Southeast Asia and Pacific) | 18 |
| Latin America and other foreign areas | 8 |
| Total | 50 |

President Nixon addressing the 25th
General Assembly of the United Nations

To a limited extent we provide advisory assistance in improving financial management to foreign government officials, heads of foreign audit institutions, officials of international organizations, and students of foreign countries, many of whom are sponsored under U.S. foreign assistance programs. This year we briefed and engaged in discussions with individuals and groups from 22 countries and the North Atlantic Treaty Organization. Such assistance is limited to a few hours of orientation and briefing and does not involve long-term training.

The visiting foreign nationals included embassy officials; heads of audit organizations and their staff members; finance, budget, and treasury officials; members of parliaments; national bank officials; staff members of international organizations, and others holding senior financial management positions in government. They were interested in the functions and operations of the General Accounting Office and its role in relation to activities of the executive and legislative branches.

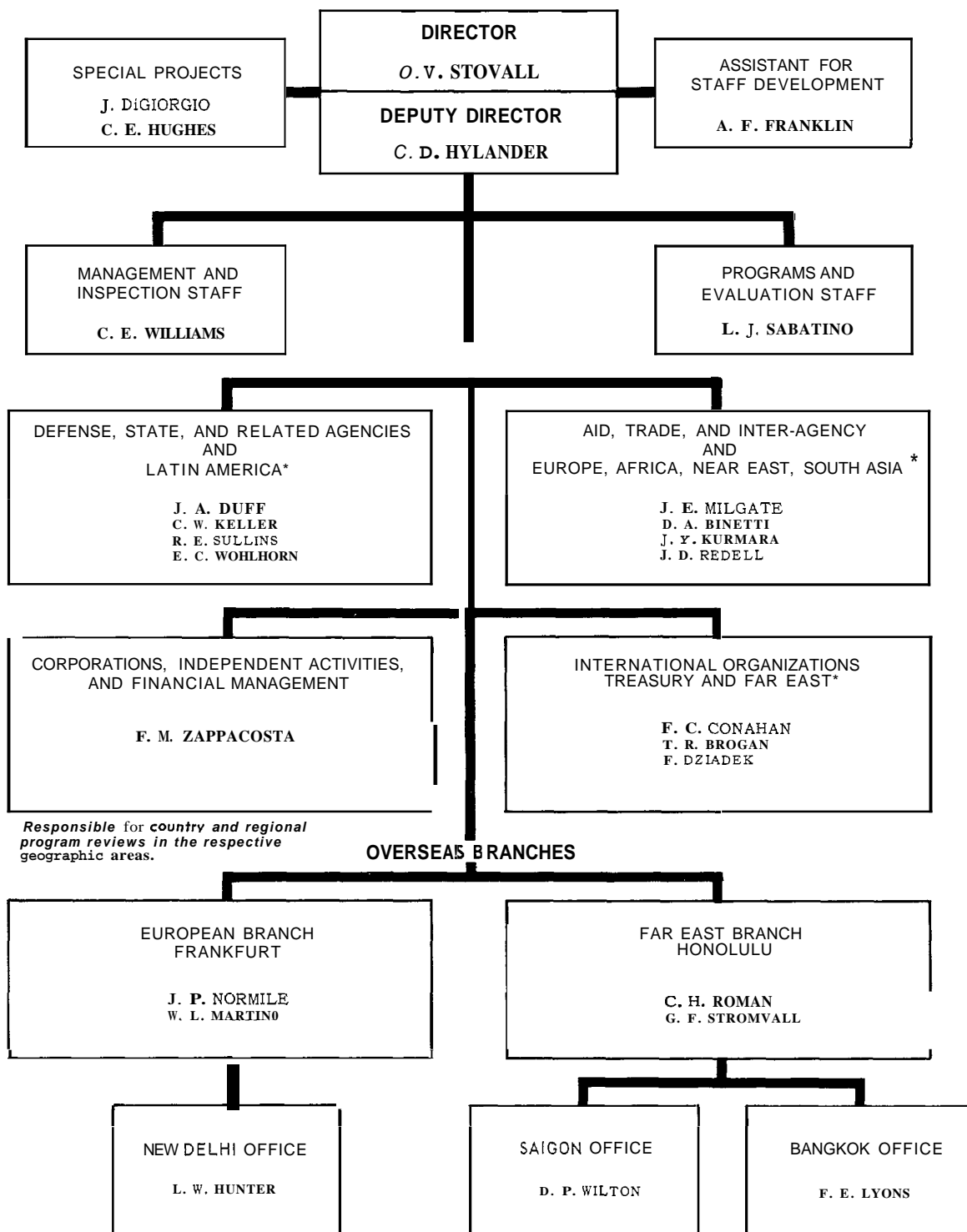
Because many international programs involve inter-related activities of several departments and agencies, many of our reviews of U.S. programs and activities in foreign countries have included broad based reviews of economic and military assistance and Food for Peace programs, foreign trade programs, U.S. participation in international organizations, and an increasing number of independent agencies involved in international programs. These reviews provide a broader perspective for reporting on the effectiveness with which the total multiagency activities, within a given country or region, were programmed, managed, and meeting U.S. objectives. In addition, we have continued to review administration and management practices of various departments and agencies.

Many of our reviews relating to international operations and programs were in response to congressional requests, particularly concerning economic, humanitarian, and military assistance programs in South Asia. The following sections of this chapter briefly describe our work during fiscal year 1972.

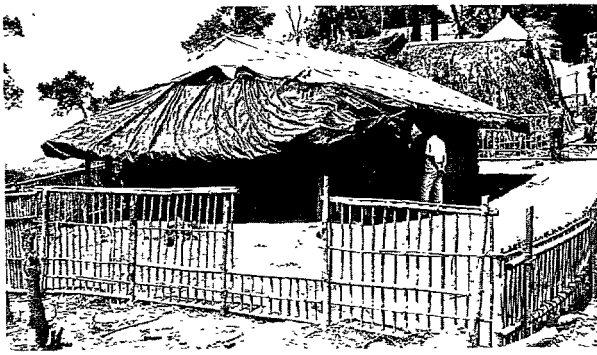
U.S. Activities in the Far East and South Asia

Thirty-two of our reports concerned programs and activities in the Far East and South Asia. Seventeen of these were issued to congressional committees or

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Dispensary in Laos constructed using plastic furnished by AID.

Members of Congress in response to specific requests. We reported on such matters as:

- U.S. participation in foreign assistance programs for Indonesia.

- U.S. humanitarian assistance provided to disaster-stricken East Pakistanis.

- U.S. assistance involving civilian health and war-related casualties and for war victims in Vietnam, Laos, and Cambodia.

- U.S. assistance to the Government of Thailand for deployment of Thai forces to Vietnam.

- Military assistance and arms sales to Pakistan.

- Opportunity for savings in providing war risk insurance for contractor property and employees.

At June 30, 1972, other reports, such as a review of U.S. funding and management of pacification and development programs in Vietnam, were in process. This report, issued in July 1972, is discussed under the caption: "Defense International Activities." (See p. 127.)

Countrywide and Regional Reviews

We issued reports to the Congress on countrywide reviews of U.S. programs in three countries—Indonesia, Afghanistan, and Morocco. Similar reviews were in process at the close of the fiscal year.

We reported that, although the economic benefits to be achieved by the United States as a result of U.S. aid to Indonesia have not been a prime consideration in the formulation of U.S. assistance policy, greater economic benefits would probably accrue to the other consortium members, as a result of Indonesia's development, notwithstanding the fact that the United States is, by far, the largest donor. We re-

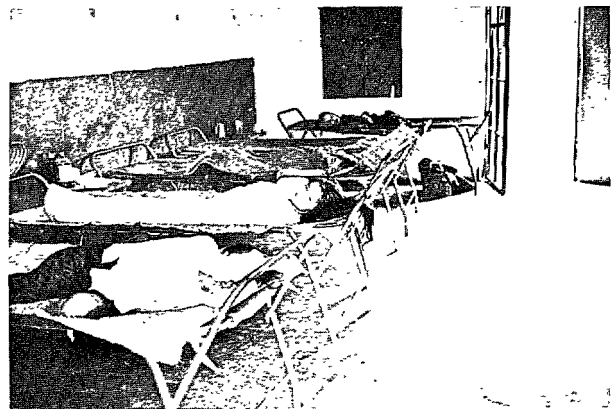
ported also that U.S. assistance dollars will, in effect, contribute to the repayment of Indonesia's debts to Communist countries. Since these factors have a bearing on U.S. foreign assistance policy, the Congress may wish to review these matters with the Department of State and the Agency for International Development (AID).

These agencies stated that, although the expansion of U.S. exports was not the purpose of U.S. assistance, some U.S. assistance had a favorable effect on long-term trade expansion. They added that, if Communist countries were to make new offers of foreign aid to Indonesia, debt repayments to Communist countries would be directly offset, in whole or in part, by Communist aid and trade. (See Appendix, Section I, Item 95.)

We reported on U.S. economic and military assistance programs and informational and cultural exchange activities and their roles in accomplishing U.S. objectives in Afghanistan. We emphasized the economic assistance program administered by AID, because it was considered an important instrument in attaining U.S. foreign policy objectives in Afghanistan and because of the increasing emphasis on multilateral economic assistance and on the need to give increasing attention to the allocation and use of U.S. bilateral economic assistance. We made limited reviews of the other U.S. programs and obtained information on the programs of the United Nations organizations; the International Bank for Reconstruction and Development and its affiliates; and other bilateral assistance programs, principally those of the Union of Soviet Socialist Republics. (B-174120, Nov. 23, 1971)

We also reported on U.S. assistance to Morocco which was carried out by the Departments of State

Civilian medical ward, Quang Nam Province Hospital, Da Nang, Vietnam.



and Defense, the Agency for International Development, the Peace Corps, the United States Information Agency, and the Export-Import Bank. The purpose of our report was to (1) apprise the Congress of the extent to which the assistance programs have been achieving basic objectives, (2) identify the significant factors adversely affecting achievement of such objectives, and (3) offer observations aimed at improving the effectiveness of the U.S. assistance programs in Morocco. (B-171888, Aug. 13, 1971)

Trade and Interagency Programs

We continued our reviews directed at identifying ways of expanding exports under U.S. Government programs. Calendar year 1971 was a climactic year as the United States, after many years of declining balance-of-trade surpluses, experienced its first balance-of-trade deficit in recent history. Thus the need for more effective programs for expanding U.S. exports was highlighted.

Trade development involves several departments and agencies, and our reports reflected the multiagency nature of trade programs, including:

Government-wide procurement policies under the buy-national procurement program.

The Trade Opportunities Program of the Departments of Commerce and State.

Coordination of foreign trade leads for agricultural-type products by the Departments of Agriculture and Commerce.

Increasing exports through activities of the Foreign Trade Zones Board, consisting of the Secretaries of Commerce, Treasury, and Army.

We issued 11 reports on trade and interagency programs: three reports on trade programs were sent to the Congress and eight reports on trade programs, Food for Peace, utilization of U.S.-owned foreign currencies, and balance-of-payments benefits were issued to agency officials.

In one report we pointed out that, although the buy-national procurement program—the Buy American Act and the Balance-of-Payments Program—has existed for a number of years, information had not been accumulated to evaluate the effects of the program on the balance of payments or to determine what it had cost to obtain balance-of-payments benefits. We recommended to the Office of Management and Budget (OMB) several courses of action aimed at evaluating

the program in terms of cost and balance-of-payments benefits. OMB's basic position is that, since most of the buy-national procurement programs were enacted for the benefit of domestic industry, it is inappropriate to attempt to measure the programs' benefits in terms of cost and balance-of-payments benefits. We believe that, to assess the effect of the policy, a system of reporting is needed to determine whether the policy's objectives are being achieved. (See Appendix, Section I, Item 117.)

The Department of Commerce conducts the Trade Opportunities Program to collect and report useful information to U.S. businessmen interested in overseas markets. The program relies on U.S. embassies and consulates to identify and report potential business opportunities to Commerce, which disseminates the information to trade associations and businesses directly or through field offices and publications. In our January 1972 report to the Congress, we recommended to the Departments of Commerce and State actions needed at all levels of program operations to make the program more effective. The Departments agreed that there was potential for increased benefits but indicated that major improvements were dependent on the resources they could allocate to the program. (See Appendix, Section I, Item 118.)

In another report we recommended to Commerce that the effectiveness of its overseas trade exhibitions could be increased by (1) concentrating more of its promotional efforts on developing countries, (2) determining on a continuing basis the needs of potential exporters for overseas promotional services, (3) stimulating American companies' use of trade exhibitions to expand their export businesses, and (4) establishing a flexible fee structure for participating in trade exhibitions as a means of attracting new companies. It advised us that it had initiated action in these areas. (See Appendix, Section I, Item 119.)

We reported to the Chairman of the Foreign Trade Zones Board that the foreign trade zones program was contributing minimally to expanding U.S. exports. The export potential of the program would be greatly enhanced if the legislation proposed by the Subcommittee on Foreign Commerce and Tourism, Senate Committee on Commerce, were passed. Also we suggested that the Foreign Trade Zones Board consider proposing further relaxation of the act's location requirements. (See Appendix, Section I, Item 120.)

We made other recommendations and suggestions to Department officials on improving export expansion

programs. Some of these related to processing export expansion reports (World Trade Directory Reports), distributing new product information to potential market areas overseas, and improving Commerce's and Agriculture's coordination of foreign trade leads for agricultural products. (See Appendix, Section I, Items 121, 122, and 123.)

Other Multiagency Reviews

In addition to reviewing interrelated activities of various agencies within a given country or programs directed toward trade development, we reviewed other multiagency matters of interest to the Congress.

In one such report we advised the Congress that the Department of Defense (DOD) and AID were reimbursing contractors for commercial insurance on war risks, in amounts that substantially exceeded the contractors' related losses. We found that \$16.2 million could have been saved over a 3-year period had a long-standing policy of Government self-insurance been adopted for contractor-owned vessels and crews carrying supplies to Southeast Asia. Recommendations were also directed at potential savings in other aspects of war risk and related insurance. While DOD and AID doubt the practicability of adopting a program of self-insurance primarily because of the administrative problems, we contend that it is warranted by the potential savings. (See Appendix, Section I, Item 125.)

At the request of a Member of Congress, we reviewed the Tarapoto-Rio Nieva Highway project financed by AID, the Export-Import Bank, and the Government of Peru. We examined allegations of mismanagement of the project made by a former project engineer. We found that beginning in January 1967 numerous problems and disagreements arose among the project consultant, the contractor, and the Government of Peru over interpretation of contract terms and construction methods. By February 1970, both the consultant and the contractor were no longer working on the project and the Government of Peru had taken over. We believe that the U.S. Mission's organizational structure for managing this project and the apparent lack of coordination among AID, the Government of Peru, the consultant, and contractor contributed to AID's lack of timely action to resolve project problems.

We recommended that AID should insure that officials responsible for project implementation are fully aware of, and carry out, AID's role of monitoring pro-

grams financed with U.S. foreign aid funds. We also recommended that, in projects where Export-Import Bank funds are being used jointly with those of another Government agency, the President of the Bank should insure that the Bank is provided with inspection or evaluation reports made by the other Government agency involved. (See Appendix, Section I, Item 96.)

At the request of the Senate Committee on Foreign Relations, we analyzed the administration's proposed reorganization of the foreign aid and foreign military sales programs and identified priority problem areas. We noted that these proposals provide for:

The United States to assume a supporting role, rather than its present directing role, in international foreign aid matters.

The United States to become more competitive in arms sales.

New basic authorities and organizational entities to be established to separate the different types of U.S. foreign assistance according to purpose.

The President to be given greater flexibility in both the economic and the military foreign assistance programs by eliminating or modifying many of the legislative restrictions in existing legislation.

The authorization authority and sources of funding for assistance to be expanded.

We identified (1) a series of issues, including certain changes in the Congress' authority and responsibility, which would arise from the proposals and (2) certain areas in which the proposals fell short of, or did not expressly address, findings and recommendations resulting from our past reviews.

Finally, we recommended legislative language to remedy, or to give legislative emphasis to, a number of matters discussed in the report. (See Appendix, Section I, Item 97.)

Agency for International Development

The United States provides economic assistance to developing countries under the provisions of the Foreign Assistance Act of 1961 and other related legislation. Such assistance programs are administered by AID.

During fiscal year 1972 we reviewed various aspects of U.S. economic assistance programs and issued 34 reports.

At the request of the Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations, we reviewed selected aspects of the Latin America scholarship program financed by AID and U.S. universities. We found that, on the average, allowances provided by AID exceeded those allowed by the Department of State for students in the same schools. We suggested that the Committee and the Congress emphasize the need to establish standardized maintenance allowances for all foreign students under U.S. Government agency sponsorship. (See Appendix, Section I, Item 98.)

In response to another congressional request, we issued a series of reports on U.S. assistance involving civilian health and war-related casualties and for war victims in Vietnam, Laos, and Cambodia. The reports on Vietnam and Laos updated our earlier reviews of refugee programs and problems associated with assisting civilian war-related casualties. In Vietnam we also looked into U.S. long-term rehabilitation and recon-

struction programs relating to the war victims. The report on Cambodia dealt with refugees and civilian war casualty problems resulting from the outbreak of hostilities between the Cambodians and the North Vietnamese in March 1970. (See Appendix, Section I, Items 99, 100, 101, and 102.)

Another series of reports issued in response to congressional requests concerned U.S. disaster relief following the November 1970 cyclone in East Pakistan, U.S. humanitarian aid to Pakistan following the outbreak of civil war in March 1971, and aspects of U.S. assistance prior to the outbreak of hostilities between India and Pakistan in December 1971. These reports discussed several problems encountered in providing this assistance. In April 1972 the United States officially recognized the new nation of Bangladesh (formerly East Pakistan). Consequently, some of the assistance previously authorized in agreements with the Government of Pakistan will not be provided. (See Appendix, Section I, Items 103, 104, and 105.)

Air dropping of food by a U.S. helicopter on an isolated coastal island of East Pakistan after the November cyclone.



We issued a report to the Administrator of AID on some of AID's projects and related contracts for providing technical assistance to three countries in Africa. This report highlighted a need for more specific targets, goals, and objectives in the contracts and project documents and identified some problems limiting the effectiveness of the technical assistance. In response to our recommendation, AID did a followup review and concluded that it had made substantial progress in its project management in the past 2 years. (See Appendix, Section I, Item 106.)

After reviewing U.S. technical assistance to support Indian agricultural development, we made several suggestions to the AID Administrator on the need for better definitions of AID project goals, improved Indian counterpart arrangements, logistical needs of U.S. technicians, and evaluation and review of technicians' efforts. The actions that AID said were being taken should achieve the objectives of our suggestions, except for those requiring discussions with Indian officials. We believe AID officials should, at such time as conditions in India are suitable, seek discussions with Indian officials on improving the Indian counterpart arrangements and evaluating the efforts of the U.S. technicians. (See Appendix, Section I, Item 107.)

In a report to the Administrator of AID we made several recommendations for assisting small businesses in participating in AID's commodity import program in India and for shortening the commodity procurement cycle. With one exception, AID agreed with the recommendations and said that it had initiated recommended actions. (See Appendix, Section I, Item 109.)

We also reported to the Administrator of AID the results of our review of AID's administration of project assistance loans to Pakistan. Capital development loans to Pakistan totaled about \$523 million and are a basic component of the economic assistance program administered by AID. U.S. assistance contributed significantly to progress toward economic development in Pakistan. The effectiveness of the assistance could have been greater had AID and the Government of Pakistan given more attention to finding solutions to problems as they developed. (See Appendix, Section I, Item 110.)

Another report to the Administrator of AID covered our review of the development performance of eight AID-assisted development banks in five Latin American countries. These banks accounted for about 40 percent of AID dollar loans to development banks in Latin America. Our examination, which included

a review of the banks' loan portfolios, was not restricted to AID funds but, where possible, included all funds regardless of source. Although the banks have to some extent assisted in the economic development of their countries, their performance fell short of AID criteria in several areas. Our main recommendation was that AID should monitor more closely its assistance to development banks through periodic analyses to determine whether the banks are adhering to AID development goals. (See Appendix, Section I, Item 111.)

We also audited the AID loan program financial statements for the fiscal years 1969 through 1971. Overseas Mission personnel were following questionable practices and procedures in their administration of loans. We reported to the Controller of AID that we had identified weaknesses which required corrective action for AID's overseas Missions to effectively monitor the status of loans to foreign governments and enterprises. (See Appendix, Section I, Item 163.)

Defense International Activities

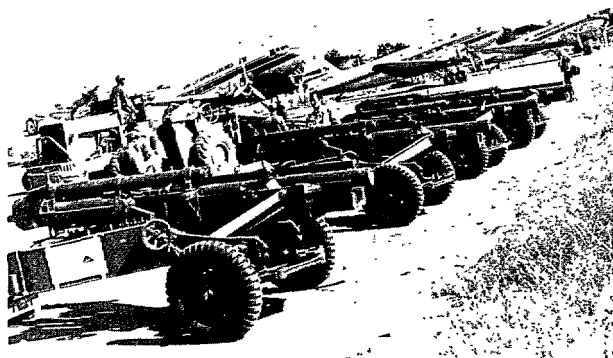
Defense international activities include military assistance programs, the foreign military sales program, Defense participation in international organizations, and other international activities of the Department of Defense and the military departments.

During the year we submitted two reports on these activities to the Congress, four to committees or Members, and three to department and agency officials.

Two of these reports concerning opportunities for savings in providing war risk insurance for contractor property and employees and reorganization proposals for the foreign military sales program are discussed under the caption "Other Multiagency Reviews."

We reported to the Congress on the progress made by the Departments of State and Defense to strengthen U.S. Government foreign tax relief on defense expenditures overseas. Previously we had reported a wide variety of problems associated with administration of foreign tax matters and cited examples of millions of dollars of direct and indirect tax payments made over several years on U.S. defense expenditures overseas. In that report, issued in January 1970, we made a number of recommendations to the Secretary of State and to the Secretary of Defense suggesting ways and means of improving their administration of this activity.

Our report showed that State and DOD had taken commendable initial steps to strengthen the manage-



Left: Howitzer cannons provided to Cambodia under the U.S. military assistance program.
Right: Trucks provided under AID's Commodity Import Program for Cambodia.

ment and administrative procedures and were pursuing a unified course of action to minimize the payment of foreign taxes but that there were still certain problems existing which needed attention. (See Appendix, Section I, Item 126.)

Another report pertained to military assistance and arms sales to Pakistan. This report included the results of our inquiry into the actions taken by the United States following the outbreak of hostilities in East Pakistan in March 1971. We reported that Defense agencies continued to release spares for lethal end-items from their stocks despite a departmental directive which placed a hold on such deliveries.

The Department of State, in commenting on the report, stated that exports to Pakistan before November 8, 1971, were inadvertent breaches of the policy in effect at that time. (See Appendix, Section I, Item 113.)

We also reported on the volume, source, and nature of assistance received by Cambodia since resumption of U.S. aid to that country in 1970. We identified both military and economic aid from the United States as well as military assistance and economic grants and loans from other nations and international organizations. We noted certain deficiencies in DOD procedures for receiving material in Cambodia but were advised that a new material-receiving procedure had been put into effect. (See Appendix, Section I, Item 114.)

We reviewed U.S. funding and management of pacification and development programs in Vietnam, and in July 1972 we reported to the Congress suggestions for changes in these areas. In order to coordinate these programs, in 1967 the U.S. Government established the Civil Operations for Rural Development Support (CORDS) organization. CORDS had not established financial control nor had it been given responsibility

for financial stewardship over more than \$2.1 billion provided by the United States in direct support of these programs. We concluded that:

The justification to merge military assistance appropriations for Vietnam into regular appropriations of DOD may no longer be valid.

The financial controls exercised over certain CORDS programs were inadequate.

The time may be appropriate to review the justification and rationale for continuing CORDS.

We suggested that the Congress reexamine the need for continuing the present funding of the major portion of the pacification and development programs from regular DOD appropriations and consider appropriating funds for such activities in Vietnam as military assistance under the Foreign Assistance Act.

We recommended that DOD, State, and AID review the need to retain CORDS. We also recommended that improvements be made in the management and financial controls of the pacification and development programs.

We did not obtain formal agency comments; however, we discussed the substance of the report with appropriate officials of DOD, State, and AID. They did not disagree with the factual contents of the report, but commented that our recommendations may be a little premature. We considered these views in finalizing our report. (See Appendix, Section I, Item 128.)

International Organizations and Financial Institutions

The U.S. approach to providing economic assistance to developing countries has been shifting in the past

decade from the principally bilateral efforts to an increasing reliance on multilateral organizations. In the early 1960s bilateral aid accounted for 78 percent of U.S. economic aid for developing countries; by the 1970s the figure dipped to 61 percent. In February 1972 the President informed the Congress that "we fully support a strengthened international effort for development through our membership in the multilateral institutions * * *."

Notwithstanding the expressed wishes of the executive departments to increase U.S. participation in international Organizations and institutions, the Congress is becoming increasingly concerned over the level of U.S. participation in these organizations and the systems employed for managing funds made available for the organizations.

The United States participates in two categories of multilateral organizations. One category consists of the international financial institutions, such as the World Bank and the regional development banks. Responsibility for managing U.S. interests in these institutions rests with the Treasury Department and the National Advisory Council on International Monetary and Financial Policies under the chairmanship of the Secretary of the Treasury. The other category includes the United Nations systems of organizations and regional organizations, such as the Organization of American States. The Secretary of State has primary responsibility for managing U.S. interests in these organizations.

For several years GAO has emphasized the need and has sought to establish independent review and evaluation functions not only for the United Nations but also for the other international organizations and institutions. Some progress toward this goal was made in 1968 when the Inter-American Development Bank established a body to make comprehensive audits of that institution. The creation of this body was an outgrowth of a 1967 amendment to the Inter-American Development Bank Act which directed the Secretary of the Treasury, as the U.S. representative to the Bank's governing body, to work toward establishing an independent audit function for the Bank.

The legislation also provides for the Comptroller General to periodically review the audit reports issued by the independent audit group and report his findings to the Treasury and to the Congress. We reviewed the first two reports issued by the Bank's independent audit group and issued our first report to the Congress. We reported that, although there were certain deficiencies, the issuance of the two reports represented a positive

step toward implementing a program of independent and comprehensive audits. (See Appendix, Section I, Item 116.)

We reviewed the U.S. system for appraising and evaluating the projects and activities of the World Bank, the International Development Association, the Inter-American Development Bank, and the Asian Development Bank. We issued our report on the Inter-American Development Bank early in fiscal year 1973.

We focused on two basic areas affecting U.S. participation in the Bank. In one area the U.S. executive branch is confronted with the task of negotiating directly with the Bank's member governments those broad policy issues that ultimately impact on the Bank's operations. The second area entails a more direct involvement with the Bank's management and staff as the executive branch strives for a system to assess proposed operations; to measure the impact of those operations; and to monitor the effectiveness, efficiency, and economy with which they are carried out.

In both the foregoing areas, the executive branch had followed a soft line or low profile approach in dealing with the Bank and its members. Consequently, the Bank had acquired and maintained a reputation as a "borrower's bank"; i.e., the Bank's clients (the 22 Latin American members) shape its policies and generally dictate the terms and conditions under which they borrow. We focused on a number of persistent problem areas attending the Bank's operations and the executive branch's lack of forcefulness in handling issues which let deficient areas go unattended or only partially corrected.

We also began followup work to determine and assess the actions taken by the Department of State and other responsible agencies as a result of our past reviews of U.S. participation in the United Nations system of organizations. These reviews included reports on U.S. participation in the (1) World Health Organization, (2) Food and Agriculture Organization of the United Nations, (3) International Labor Organization, (4) United Nations Children's Fund, and (5) United Nations Development Program.

These reviews showed that (1) the Department of State was not effectively directing and coordinating the activities of all U.S. departments and agencies involved in international organization affairs and (2) the programs and activities of the United Nations agencies needed effective review and evaluation. We have been assisting the State Department in developing criteria to be used in establishing an improved United Nations-wide evaluative organization.



Department of State Building, Washington, D.C.

Department of State

We reviewed, and issued four reports on, State Department administration and management practices. During a review of selected activities at the Department's Regional Finance and Data Processing Center at Paris, France, we found that savings could have been realized if Treasury had purchased British pounds sterling in the London, England, market rather than in the New York, N.Y., market. (See Appendix, Section I, Item 164.)

We also continued reviews of vouchers and supporting documentation for the settlement of accountable officers of the Department of State, the United States Information Service, and the Peace Corps. Audit work on State's working capital fund accounting system and settlement of accountable officers accounts is discussed in Chapter Five.

Treasury Department

We completed a survey of the organization and management of the international functions of the Treasury Department, which will provide background information for future audits relating to these functions.

Until the enactment of Public Law 91-599 in December 1970, the Exchange Stabilization Fund (ESF) was immune from any external oversight, including audit by GAO. The start of the ESF audit had been delayed because Treasury questioned the scope of our audit authority. Its position is that our audit authority is limited to the administrative accounting system and related procedures and that the language of the statute precludes evaluating and reporting on any other aspect of ESF administrative expenses. We believe that, to be responsive to the intent of Congress, we need to evaluate and report on the adequacy of the overall system of management control over ESF's administrative operations. At the close of the year we were working with Treasury to resolve differences and proceed with the audit.

Independent Agencies

Export-Import Bank

Pursuant to the provisions of the Government Corporation Control Act, we audited the fiscal year 1971 financial statements of the Export-Import Bank of the

United States (Eximbank) and issued a report to the Congress. We also issued a short-form report to the Bank on its financial statements for inclusion in its annual report.

We reported that the financial statements, except for the treatment of sales of certificates of beneficial interest, presented fairly the financial position of the Bank at June 30, 1971, and the results of its operations for the year then ended. The certificates of beneficial interest sold subject to contingent repurchase should, in our opinion, be considered as borrowing or financing transactions rather than as sales of assets.

Inter-American Foundation

The Inter-American Foundation (formerly Inter-American Social Development Institute) is a non-profit U.S. Government corporation which provides support for projects aimed at improving living conditions for Latin Americans.

We audited the fiscal year 1971 financial statements of the Foundation and issued a report to the Congress. It was our first report on the Foundation, because this was the first year in which the Foundation was in operation.

We expressed the opinion that the financial statements presented fairly the Foundation's financial position as of June 30, 1971, and the results of its operations and the source and application of its funds for the year then ended.

We reported that by June 30, 1971, the Foundation had made no financial commitments for any of its planned program activities because all effort to that time had been directed to developing its organization and approach.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is a U.S. Government corporation which insures and guarantees U.S. investors against certain political and business risks in less developed countries.

We audited the fiscal year 1971 financial statements of OPIC and submitted a report to the Congress. It was our first report on this corporation because prior to January 1971 the program was administered by AID. We also issued a short-form report to OPIC on its financial statements for inclusion in its annual report.

We reported that the financial statements, except

for accounting for OPIC's potential claims liability, presented fairly the financial position of the corporation at June 30, 1971, and the results of its operations for the year then ended. Due to the many imponderable factors affecting potential claims related to expropriation losses in Chile, as well as those affecting the contingent liability that OPIC had incurred as a result of its other contracts of insurance and guarantees in force, we were not able to express an opinion on the adequacy of the amount reserved for losses.

A report to the President of OPIC covered a study of the development impact of U.S. investment in less developed countries insured under the investment insurance program. We believe that the study will assist the corporation in its efforts to develop workable criteria for assessing the development impact of the program. The results of the study, although based upon limited available information, indicated that insured investment had a varied impact on development in less developed countries. (See Appendix, Section I, Item 112.)

Other International Activities

The Chairman, Senate Committee on Foreign Relations, requested that we undertake a study of Radio Free Europe and of Radio Liberty, directed particularly to an analysis of the public moneys already spent on these Radios or on the corporations to which they belonged. The Committee needed information from this study and from a companion study on the effectiveness of the programs of the two Radios requested from the Congressional Research Service of the Library of Congress, in considering the merits of continuing U.S. financing of these Radios.

Cumulative income for both Free Europe, Inc., and Radio Liberty Committee, Inc., amounted to \$532.6 million at June 30, 1971, and cumulative expenses amounted to \$512.4 million. The U.S. Government provided \$482.1 million for support of the Radios and associated activities. The balance of about \$50.5 million was received from other sources.

In our opinion, the Free Europe and the Radio Liberty Committee had taken sufficient steps to insure sound financial management practices and public moneys had been reasonably accounted for, effectively administered, and applied for the stated purposes of the Radios and their respective corporations.

World conditions and international relationships

have altered in the 20 years since Government support of the Radios began. We believe the need for continued support through appropriated funds should be reassessed in the light of present conditions and of U.S. foreign policy rather than on the accomplishment under the earlier conditions or on how the Radios are organized and managed. In arriving at a decision whether to continue or discontinue U.S. Government support of these activities, we suggested that, since the activities of both Free Europe and Radio Liberty Committee have diminished to strictly radio broadcasting, costs could be reduced if these organizations were consolidated and if some or all of their activities were merged. (See Appendix, Section I, Item 127.)

Problems in Obtaining Access to Information and Documents

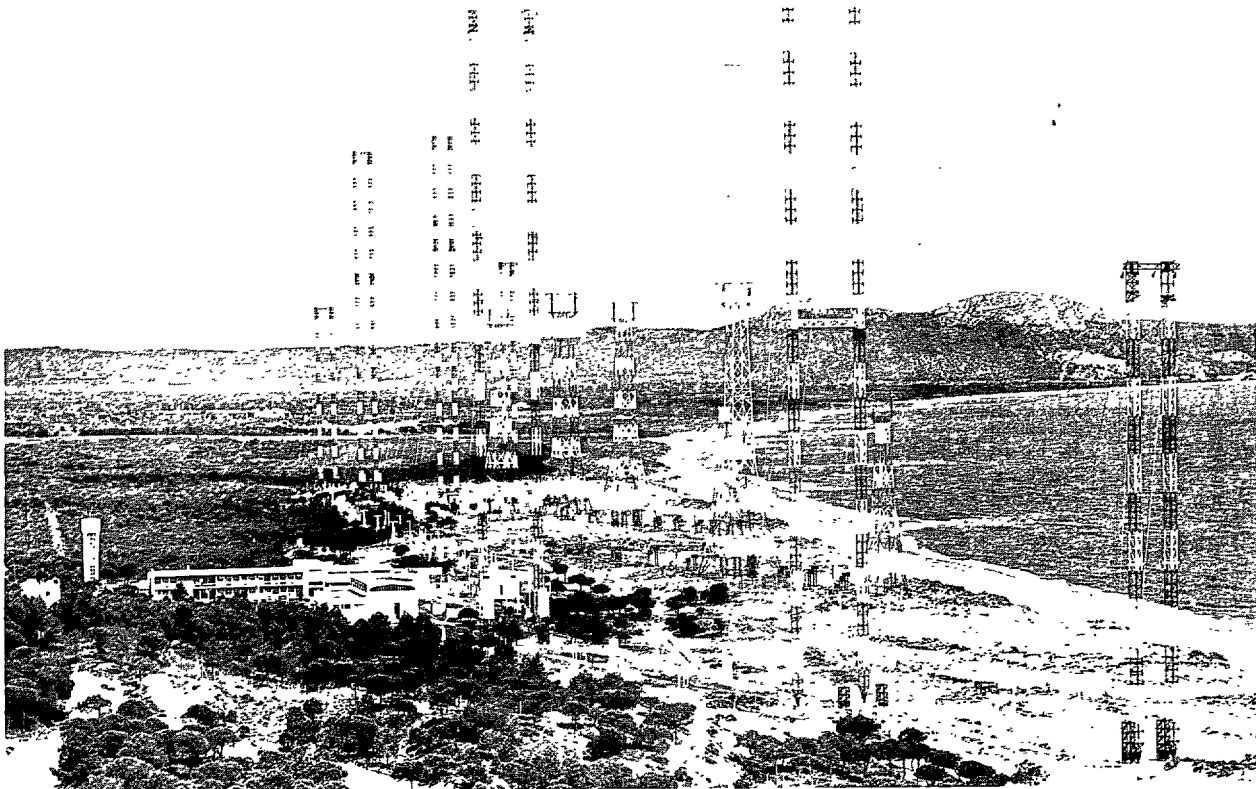
We have had continued difficulties in obtaining access to information needed in our reviews and evaluations of programs involving our relations with foreign countries and U.S. participation in international lending institutions.

The Departments of Defense, State, and Treasury have employed delaying tactics in preventing our necessary access to records. Information and documents have been withheld on the basis that such information and documents were internal working documents or that they disclosed tentative planning data. The most serious interference has been the restraints placed on agency officials which require them more and more to refer to higher authority for clearance before making documents available to our staffs.

We included specific examples of these problems in our testimony in July 1971 before the Subcommittee on Separation of Powers, Senate Committee on the Judiciary. A compilation of the access-to-records problems we have encountered in making audits of foreign operations and assistance programs was furnished to the Chairman of the Senate Committee on Foreign Relations in September 1971. We also appeared before the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, in May 1972.

The President invoked executive privilege to withhold the basic planning data on the military assistance

Radio Liberty Transmitter Station at Playa de Pals, Spain.

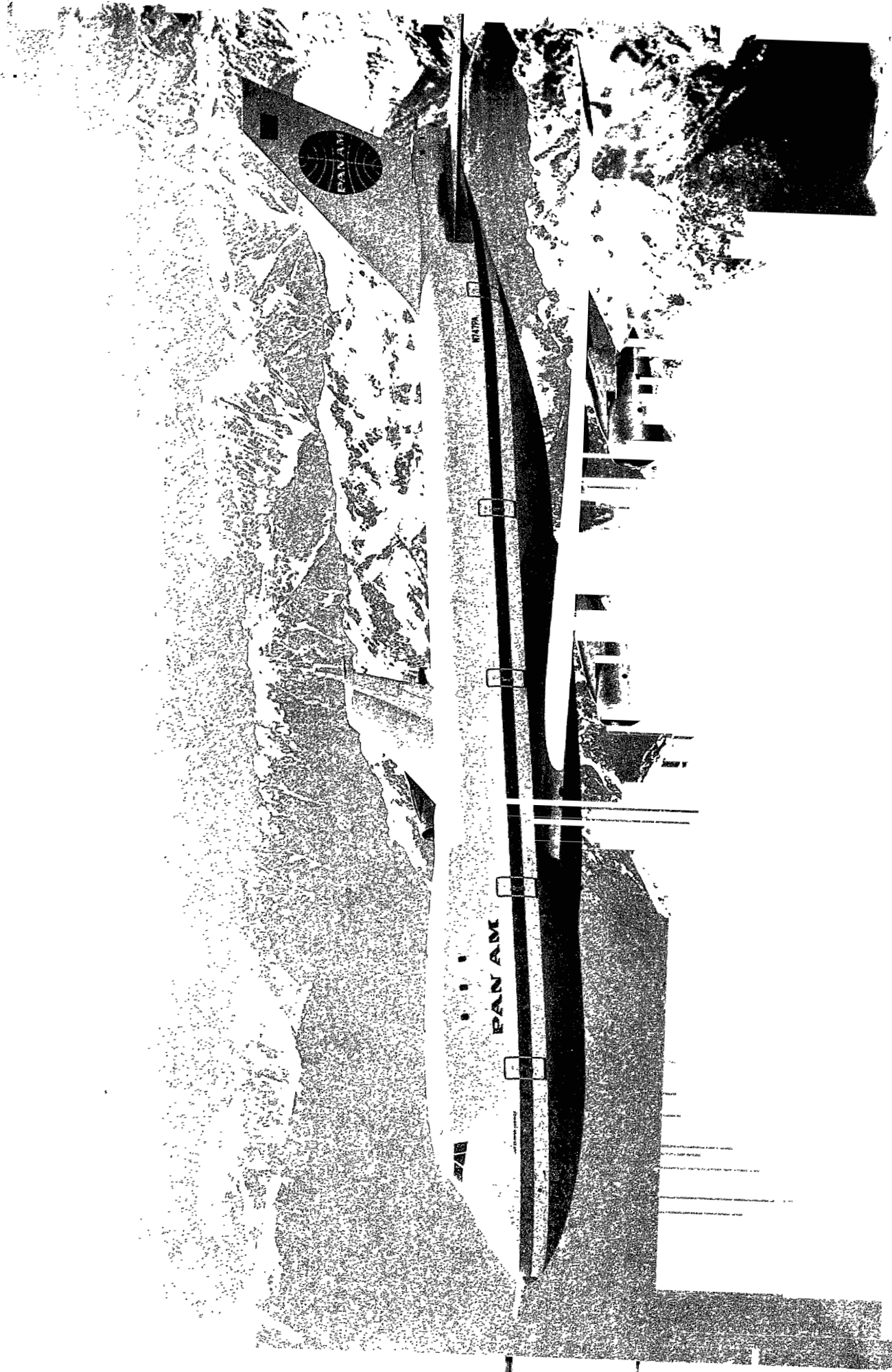


program in August 1971. Since then, we have noted a general increase in the volume of documents that operating officials were referring to higher authority for approval for release to our auditors. Our efforts to reach a solution to this complex problem included (1) an exchange of letters between the Comptroller General and the Secretary of Defense, (2) meetings with Defense officials in an attempt to establish mutual working arrangements, and (3) a joint visit to overseas commands by representatives of our office and the Department of Defense in May 1972.

In March 1972 the President again invoked executive privilege to withhold any internal working documents concerning the foreign assistance program and international information activities. Since then, we have experienced some tightening up on our access to documents and State Department instructions have gone a bit further in broadening the field of applicability of the Presidential directive.

Also we have experienced long delays in obtaining certain information from the Treasury Department during our review of U.S. participation in international lending institutions. The problem has been compounded by a screening process employed by both Treasury and State.

We have been denied access to a variety of documents. We were told by Treasury that the minutes of the meetings of the executive directors of the financial institutions and certain communications to the National Advisory Council on International Monetary and Financial Policies from the U.S. executive directors were deemed privileged information and were to remain within the executive branch. These documents seemed to form a significant part of the record on which U.S. management decisions regarding the institutions' operations were based. Therefore, it is our view that the documents should have been made available for our examination.



CHAPTER THIRTEEN

TRANSPORTATION AUDIT AND
CLAIMS SETTLEMENT

Responsibilities

The General Accounting Office is responsible for determining the correctness of charges paid for freight and passenger services furnished for the account of the United States, for recovering overcharges, and for settling transportation claims both by and against the Government. It is also responsible for settling and adjudicating all general claims and demands by or against the United States. In settling transportation and general claims, we furnish technical support and other assistance to the Department of Justice in its prosecution or defense of suits to which the United States is a party.

As a part of our audit responsibility, we review, evaluate, and report on the claims settlement, debt collection, and transportation activities of Government agencies and assist the agencies in improving their effectiveness in these activities.

The Transportation and Claims Division is responsible for carrying out the above functions. Its staff of over 750 professional, technical, and clerical personnel is headed by Thomas E. Sullivan, Director, and Deputy Directors Ralph E. West (Transportation and Division Planning), and James M. Campbell (General Claims and Agency Reviews). An organization chart appears on page 136.

Transportation Payments

Direct procurement of commercial transportation by the Federal Government amounts to about \$4 billion annually. Of this amount approximately \$1.7 billion is for services procured on standard forms and is audited centrally by GAO on the basis of paid bills submitted by Government agencies. Other expenditures for direct procurement of commercial transportation consist primarily of contract services including the transportation of mail, payments by the Military Sealift Command for commercial ocean services, and payments by Government corporations that are audited onsite.

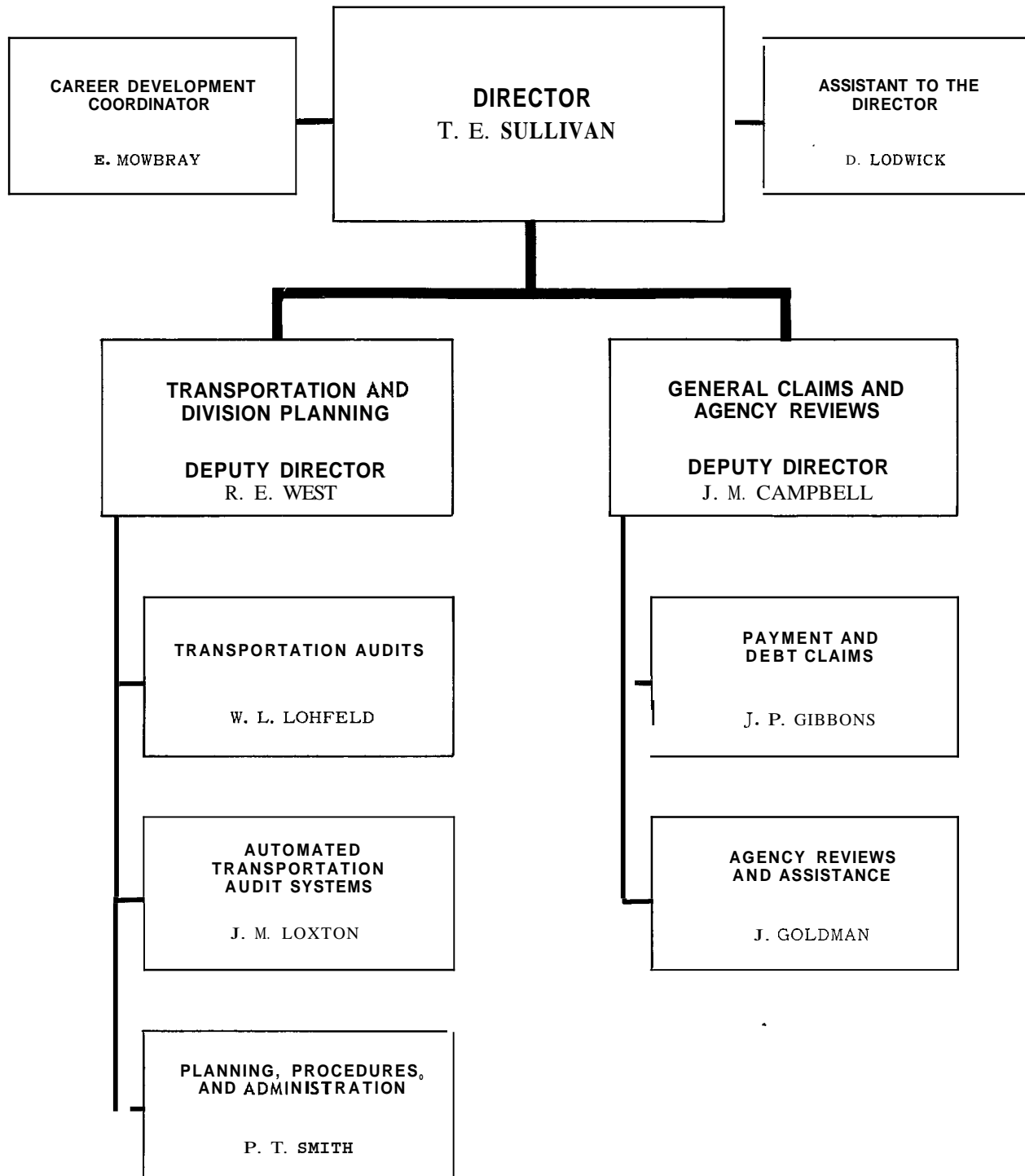
The Government also spends several billion dollars annually for operating military transportation fleets, for moving civilian employees' household goods on a commuted basis, for reimbursing transportation charges incurred by cost-type contractors, and for other indirect transportation services. These expenditures are covered in our reviews of the activities and programs of the Federal agencies.

Federal agencies are required to pay the bills of carriers subject to the Interstate Commerce Act and the Federal Aviation Act upon presentation before audit by GAO. Although payments to carriers not subject to these acts may be audited before being paid, for administrative efficiency, all transportation bills for services procured on standard forms are normally paid before audit.

Because accountable officers are exempted by law from liability for any overcharges by carriers improperly applying rates or charges on services procured by standard forms, paid transportation bills are submitted to us for central postaudit, for determination of overcharges, and for recovery of overcharges directly from the carriers. The principal transportation payments not sent to us for postaudit are those made by Government corporations and those procured under contract, such as U.S. Postal Service mail contracts and Military Sealift Command shipping contracts. Our audit of transportation charges is normally completed 6 to 7 months after payment.

During the fiscal year we audited 4.3 million bills of lading for freight shipments, for which the Government had paid over \$1 billion, and 2.7 million transportation requests, for which the Government had paid nearly \$700 million. From our audit of transportation payments, we issued **84,445** overcharge notices to commercial carriers requesting refunds totaling \$14.8 million. Collection from carriers amounted to \$14.2 mil-

TRANSPORTATION AND CLAIMS DIVISION



JUNE 30, 1972

BILLS OF LADING AND TRANSPORTATION REQUESTS AUDITED DURING FISCAL YEAR 1972

| | Number | Amount paid | Notices of overcharge issued | |
|-----------------------------------|------------------|----------------------|------------------------------|-------------------|
| | | | Number | Amount |
| Bills of lading | 4,351,718 | \$1,008,437, 195 | 71,841 | \$13,518, 142 |
| Transportation requests | 2,709,825 | 690,046,207 | 12,604 | 1,304,584 |
| Total. | 7,061,543 | 1,698,483,402 | 84, 445 | 14,822,726 |

lion, which was credited to basic appropriations of the procuring agencies or, where this was not possible, deposited in the Treasury as miscellaneous receipts. A summary of this activity for fiscal year 1972 is shown above.

The amount of payments audited was about 13 percent less than the prior year, and the amount of the overcharges detected and reported to carriers was about 7 percent less. This work was completed with 12 percent fewer audit hours than were applied to the transportation audits in fiscal year 1971.

A schedule showing transportation audits and collections for fiscal years 1963-72 is included in Exhibit 3 on page 172.

As part of our review of transportation payments, we identified hundreds of shipments where the transportation services were procured at the legal rates but resulted in excess costs to the Government which were not recoverable from the carriers. These traffic management errors resulted from the selection of uneconomical routes, modes of carriage, or types of service and were brought to the attention of responsible transportation officials of the agencies involved for necessary corrective action.

The exception relate to claims for loss and damage, accessorial or supplementary transportation services, and amounts due because of carrier errors in computing the original bills. These latter claims are reviewed in our audit of paid vouchers.

We received about 19,000 transportation claims and settled or otherwise disposed of 20,440 claims for approximately \$10.2 million. A large amount claimed was on assigned bills of certain military airlift contractors, which we audit before payment to fully protect the Government's interest. On these assigned bills and other original unpaid bills for \$4.7 million, about \$260,000 was disallowed because it was in excess of the proper contract and/or tariff rates. The balance of the claims were supplemental bills of carriers for changes in their original charges or demands for repayment of overcharges we had collected. In disposing of these claims amounting to about \$5.5 million, we certified for payment \$2.4 million and disallowed or terminated \$3.1 million. A summary of this activity is shown below.

A schedule showing transportation claims settled during fiscal years 1963-72 is included as Exhibit 4 on page 172.

Transportation Claims

Pursuant to our claims settlement authority, transportation claims against the United States, with certain minor exceptions, are submitted to us for adjudication.

Payment Claims

Generally, all Government agencies have the primary responsibility for paying the obligations incurred in connection with their operations. There are, however, two classes of claims which we must adjudicate.

TRANSPORTATION CLAIMS RECEIVED AND SETTLED DURING FISCAL YEAR 1972

| Class of claims | On hand July 1, 1971 | Received | Settled | | | On hand June 30, 1972 |
|------------------------|----------------------|---------------|------------------|--------------------|--------------------|-----------------------|
| | | | Number of claims | Amount claimed | Amount allowed | |
| Freight | 11,473 | 17,966 | 19,316 | \$6,423, 182 | \$3,074, 711 | 10, 123 |
| Passenger | 488 | 1,079 | 1, 124 | 3,819,333 | 3, 784,729 | 443 |
| Total | 11,961 | 19,045 | 20,440 | 10, 242,515 | 6, 859, 440 | 10,566 |

¹ Includes allowance of \$3,465,722 for Military Airlift Command movements audited before payment.



An adjudicator and a reviewer examining a voluminous file relating to claims against a Government contractor for \$674,377.

before payment can be made or denied : those in which such reasonable doubt exists as to preclude action by the administrative agency in the absence of specific statutory authority, and those in which the administrative agencies are specifically prohibited by law from paying prior to our settlement. We also consider all reclaims of items previously denied by administrative agencies, unless the agency involved determines that the administrative disallowance was clearly in error and can properly be corrected at the agency level.

Claims against the United States arise from every kind of Government transaction, and the claimants include private citizens; Government personnel, both civilian and military; business entities; and State and foreign governments. The categories of claims include Government contracts; compensation due civilian employees, including overtime and premium pay; quarters and cost-of-living allowances; travel; transportation of household effects; per diem; allowances on change of official station; pay and allowances due military personnel; retirement pay; compensation due deceased civilian officers and employees; pay due deceased members of the Armed Forces and the National Guard; and miscellaneous claims by Government personnel and public creditors.

Perhaps one of our least known functions is the processing of the necessary certifications for paying the salary and expense allowance of the President of the United States. Section 102 of title 3, United States Code, provides that the President receive compensation in the aggregate amount of \$200,000 a year, to be paid monthly, and in addition an expense allow-

ance of \$50,000 to assist in defraying expenses relating to or resulting from the discharge of his official duties.

Near the end of each month, we process a certificate of settlement, payable to the President, that sets forth his monthly salary and the monthly portion of his expense allowance. After the certificate is reviewed, it is forwarded to the Bureau of Accounts of the Treasury Department for recording in the administrative accounts. In compliance with the provisions of 31 U.S.C. 82b, a bonded certifying officer of the Bureau of Accounts certifies payment to the Washington Regional Disbursing Office of the Division of Disbursement. The Washington Regional Disbursing Office then draws checks on the Treasurer of the United States in the name of the Chief Disbursing Officer, and the checks are delivered to the White House.

On July 1, 1971, we had on hand, exclusive of transportation claims, 2,395 claims against the United States and received 8,066 during fiscal year 1972. During the same period, 7,819 claims were settled and a total of \$69.9 million was allowed. As of June 30, 1972, a closing balance of 2,642 claims was on hand. For fiscal year 1972, final action was taken on 1,620 claims which were barred because of the 10-year statute of limitations on filing claims in the General Accounting Office.

Debt Claims

Each Government agency has primary responsibility for collecting debts arising under its activities. However, they are required to report to us for further collection action those debts on which they have taken appropriate collection action, but which cannot be compromised, or on which collection action cannot be suspended or terminated.

Our collection procedures include locating debtors whose addresses are unknown, issuing appropriate demand letters and letters of explanation, and procuring information on the financial status of debtors. Every effort is made to identify amounts due debtors by the Government for application to their debts. Debtors who are unable to pay the entire amount of their debts at one time are permitted to make monthly installment payments commensurate with their ability to pay. When we are unable to obtain voluntary payment of a debt, we refer the case to the Department of Justice for suit, provided the debtor's financial circumstances warrant such action.

We are responsible for adjudicating debt claims sub-

mitted by other agencies because of doubt as to the amount due, the legal liability of the parties involved, or the action to be taken. Similarly we independently adjudicate disputed claims asserted against debtors by the various agencies when requested by the debtors, their representatives, or the agencies concerned.

On July 1, 1971, we had on hand 32,293 claims by the United States with a face value of approximately \$50 million. During fiscal year 1972, we received 18,685 claims and disposed of 22,211. Our collection actions totaled \$4.6 million.

On June 30, 1972, 28,767 claims were on hand with a total estimated value of \$46.6 million. These claims are assigned to examiners and adjudicators for processing with the exception of 8,100 representing accounts receivable of \$5.5 million which we have under collection. The Department of Justice has another 4,146 claims, representing \$4 million under collection. Thus there are 12,246 claims with a combined value of \$9.5 million under collection.

We have authority to arrange compromise settlements on claims which do not exceed \$20,000, exclusive of interest. Compromise offers involving larger claims are referred to the Attorney General for disposition.

During fiscal year 1972, we solicited 17,213 compromises from debtors and made 327 compromise settlements, in which \$188,069 was accepted in liquidation of debts totaling \$441,514. Compromise settlements accepted by GAO are final and conclusive on the debtor and on all officials, agencies, and courts of the United States.

The heads of executive agencies are authorized to waive claims for overpayment of pay to civilian employees in certain cases less than \$500. If the claim is for more than this amount or is the subject of an exception made by GAO in the account of any accountable officer, only GAO can waive the claim.

During fiscal year 1972, we processed 627 requests for waiver of erroneous payments of pay totaling \$530,397. Waiver requests were granted for the full amount in 428 cases amounting to \$356,788. One hundred and sixty-four requests totaling \$126,954 were denied, and the remaining 35 cases were denied in part—\$22,374 was waived and \$24,281 was denied.

Agency Reviews and Assistance

During fiscal year 1972, we issued one report to the Congress and four to agencies covering reviews of

operations and regulations of agencies in connection with payment and debt claims activities.

Office of Education

During fiscal year 1972, we reported to the Congress that the Office of Education should improve procedures to recover defaulted loans under the Guaranteed Student Loan Program. This program enables students attending colleges or vocational schools to finance part of their education by borrowing. We reviewed the portion of the program which covered loans insured by the Federal Government.

Collection efforts were hampered because necessary personnel had not been allotted. As of January 31, 1971, over 1 million loans amounting to nearly \$1 billion had been guaranteed under the program. Of these loans, 5,920 were in default and by September 30, 1971, the number of loans in default had almost tripled. We also called attention to the absence of a national refund policy for educational institutions participating in the program and recommended that, to the maximum extent practicable, such a policy be established. (See Appendix, Section I, Item 224.)

General Services Administration

As a part of the program to review agency instructions, procedures, and operations in the area of claims by and against the Government, we made reviews at the General Services Administration Central Office and Region 3, both in Washington, D.C.; the Federal Supply Service, Procurement Operations Division, Arlington, Va.; and at Regions 9 and 10 located in San Francisco, Calif., and Auburn, Wash., respectively.

In a report to the Deputy Administrator of GSA, we noted that payment claims were being handled in conformity with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies but the Hold-Up List was not being used to make offsets against amounts payable to contractors.

We pointed out that instructions relating to debt claims were for the most part consistent with the GAO Manual and the standards issued jointly by the Comptroller General and the Attorney General but some modifications were necessary to reflect more clearly the intent of these guidelines.

We reported that debt collection operations could be improved by (1) using additional available sources to locate debtors, (2) obtaining financial information,

TRANSPORTATION AUDIT AND CLAIMS SETTLEMENT

(3) processing demand letters more promptly, (4) setting off debts against amounts payable to debtors, (5) contacting debtors personally, when feasible, (6) placing names of debtors on the Hold-Up List for possible setoff, and (7) exploring the feasibility of compromise in appropriate cases. (See Appendix, Section I, Item 222.)

U.S. Coast Guard

Following a review of regulations and claims operations at the U.S. Coast Guard Headquarters in Washington, D.C., and at the 8th District in New Orleans, La., we reported to the Commandant of the U.S. Coast Guard that instructions relating to debt claims were consistent, for the most part, with the GAO Manual, the Federal Claims Collection Act, and the Joint Standards. We did recommend some clarifications. Our recommendations for improving collection operations resulted in more effective procedures.

In our New Orleans review, we found that improved procedures were needed to insure that the values of claims referred to the U.S. attorney for collection were properly recorded in the accounts and that the bases for terminating collection actions were adequately documented in the case files. (See Appendix, Section I, Item 223.)

Federal Housing Administration

We reported to the Assistant Secretary for Housing Production and Mortgage Credit and Federal Housing Commissioner in January 1972 on title I debts at the central office of the Federal Housing Administration, Department of Housing and Urban Development, Washington, D.C., and at the Insuring Office in Hempstead, N.Y.

We attempted to determine whether the agency's collection procedures complied with the Federal Claims Collection Act of 1966 and the implementing Joint Standards. The agency was in the process of revising its manual which had not been revised after passage of the Federal Claims Collection Act.

We found that collection operations in the central office were timely and generally in compliance with the guidelines. Although the agency did not use social security numbers, following our review it began to request this information.

Delays in processing debt cases in the Hempstead Insuring Office were not serious and appeared to be at-

tributable to the heavy caseloads which title I representatives carried. The overall default rate of 1.56 (percentage of the number of loans defaulted to the number of loans issued) experienced on FHA-insured loans in the Hempstead area was generally lower than that of commercial institutions on similar loans. (See Appendix, Section I, Item 225.)

National Oceanic and Atmospheric Administration

We reviewed debt collection operations at the National Oceanic and Atmospheric Administration, Department of Commerce, Rockville, Md., in connection with overpayments of pay made to current and former employees and billings addressed to employees transferred to international organizations. Administrative procedures and controls were generally effective but we offered suggestions for some improvements and furnished copies of collection letters which we have used effectively.

Employees who transfer to international organizations may retain their coverage, rights, and benefits. By agreement with the agency, regular quarterly billings are issued to these transferred employees in sufficient time to insure that remittances are received for inclusion in the voucher transmitting payment to such fund accounts as Civil Service Retirement and Disability, Federal Employees Life Insurance, and Federal Employees Health Benefits. When agency officials were informed that several employees had not remitted the agreed-upon amounts, action was promptly taken to collect them. (See Appendix, Section I, Item 226.)

During the year, our assistance to various Government agencies on specific aspects of their traffic management and transportation activities included:

Informing the Military Traffic Management and Terminal Service (MTMTS) that past shipment correction notices have not secured lower rates when the tariff provisions require annotation on the original bill of lading at the time of shipment.

Advising MTMTS that its proposal that the Government assume full responsibility for personal property of Armed Forces personnel which is damaged while in the custody of carriers, in consideration of a reduction in transportation rates, could not legally be approved.

Auditing the transportation accounts of the U.S. Postal Service, on a reimbursable basis.

Furnishing data to **GSA** to assist in establishing effective transportation management techniques for civil agencies.

Furnishing information on freight rates, household goods rates, and passenger fares and charges to the Department of Defense.

Furnishing passenger fares and other transportation data to the Department of Labor for preparing the monthly consumer price index.

Providing guest lecturers at the Army Transportation School, Fort Eustis, Va.

Considering and acting upon various requests from the administrative agencies for permission to deviate from established procedures to provide more economical and efficient traffic management.

We continued meeting with representatives of individual carriers or members of their trade associations to discuss and resolve mutual problems relating to our audit of carriers' bills. During the year we participated in five meetings with various domestic and international trade associations and had numerous discussions

in Washington, D.C., with carrier and carrier association representatives.

Technical Assistance

We continued to provide technical assistance to the Department of Justice in its prosecution and defense of transportation suits by or against the United States and in proceedings before the Interstate Commerce Commission. As part of this assistance, transportation specialists participated in numerous conferences with members of the Department. As noted before, our assistance to the Department regarding general claims is limited to referring debts and advising on compromise offers.

We reported debts against carriers involving 88 items totaling \$12,930 to the Department for collection. During the fiscal year, similarly reported debts covering 536 items totaling \$100,072 were settled by collecting \$56,005 through judgments, compromises, or other means.

The Employee Advisory Council of the Transportation and Claims Division is a group of nonsupervisory employees organized November 15, 1971, to serve as a communication medium between management and all nonsupervisory employees in the Division. From the left, seated, are Alexander Mazurek; Ann Cortes; Olga Hill; T. E. Sullivan, Director; Louise Byas, Chairman; Cora Mackall; Juanita Williams; and Alice Wilkes. Standing, left to right, Louis Rosengarten; Lillian Fogg; Marion Wanat; Ozell Simmons; David Lodwick, Assistant to the Director; David Baker; Jane Williams; Julian Sorensen; James Hurt; Carl Crea; Margaret McDonald; Claude Rowan; William Cole; Lillie McLane; Bertram Pollack; Bert Shipley; and Margery Van Doren.



The Department of Justice notified us that carriers had filed 85 suits covering 22,327 shipments. Fifty-five of the suits filed and about 19,648 of the shipments were on overseas movements of household goods by the Department of Defense. The amount sued for is not stated in the petitions filed in those suits, but we estimate the liability of the United States on the 850 suits filed in this and prior years to be about \$10 million if the final rulings of the court are adverse to the Government. In the same period, we furnished technical advice and other assistance to the Department of Justice in 29 suits involving 3,983 shipments for \$1,270,952. Nineteen suits, the subject of reports in this or prior years, involving 1,523 shipments and \$856,173, were settled by payment of judgments for \$95,400 and by dismissal or withdrawal of the balance.

A meeting of the parties to the litigation in the movement of household goods was held in October 1971 before a Court of Claims Commissioner to discuss the ruling of the court in one of the five representative cases selected for trial of the issues in the 850 household goods suits, *Trans Ocean Van Service v. United States* (Ct. Cl. No. 137-66, decided May 15, 1970). At that time it was agreed that the parties would select one of the 850 suits containing a sufficient number of shipments to represent the problems involved and the forwarders would submit claims consistent with the ruling in the representative case. On November 17, 1971, the Commissioner ordered the plaintiff in *Wheaton Van Lines v. United States* (Ct. Cl. No. 226-27), to comply on or before January 3, 1972, with part I of the Procedure in Common Carrier Cases as supplemented by the agreement reached in October 1971. Similar orders having a performance date of March 31, 1972, were issued in nine other Wheaton cases.

In connection with another of the five representative cases, *Global Van Lines, Inc., v. United States* (Ct. Cl. Nos. 259-65 and 355-65), on which a report of the Commissioner was filed February 1, 1971, motions for reconsideration of the court's findings were filed by both the plaintiff and the Department of Justice on May 2, 1972.

All actions in the above cases were pending before the court at the end of the fiscal year.

The collection of motor carrier overpayments is another activity of continuing importance in our audit and technical assistance work. Overpayments arise when carriers apply unjust and unreasonable rates as defined by the Interstate Commerce Act. Reparations

for such overpayments to motor carriers may be recovered only through suits filed in the U.S. district courts. During the year we prepared reports on 25 motor carrier overpayments involving 152 shipments and claimed reparations of \$86,375. Sixteen of the cases were referred to the Department of Justice and as of June 30, 1972, the Department had filed suits on most of them. When advised of unjust and unreasonable rate situations, certain motor carriers voluntarily refunded overpayments on 193 shipments amounting to \$76,612.

Transportation Documentation and Procedures

Under the Joint Financial Management Improvement Program, GAO participated in a joint agency study of freight and passenger transportation in the civil agencies. The study was under the chairmanship of an official of the General Services Administration with full-time staff members assigned from GAO; GSA; the Office of Management and Budget; the Treasury Department; and the Departments of Commerce, Agriculture, and Health, Education, and Welfare.

The report issued in September 1970 outlined the conclusions and recommendations of the study group. The study resulted in 58 recommendations which offer the means not only to simplify and expedite payment of the 9 million yearly transportation transactions but also, in many instances, to integrate the audit of payments as a natural outgrowth of the payment process and to produce savings estimated at \$8.6 million annually.

Of the 58 recommendations, 30 are being implemented by GAO as part of its responsibility to promulgate accounting principles, standards, and uniform procedures, for use of Federal agencies and individuals and private concerns doing business with the Government. Of the 28 remaining recommendations, four are being implemented by GAO in concert with carriers and various other agencies, 16 are being acted upon by various other agencies, one will be handled under the Joint Financial Management Improvement Program, and seven require no further action.

During fiscal year 1972, we continued to make progress on those recommendations for which we have primary responsibility:

All work pertaining to the new Government Transportation Request form has been completed.

Instructions for its use have been circulated, and the new form should be available for use early in calendar year 1973. The revised form will simplify the procurement, payment, and audit of passenger transactions.

Authority has been granted for heads of departments and independent establishments, at their option, to direct the use of cash within the 50 States and the District of Columbia to (1) procure passenger transportation services costing up to \$100, plus tax, for each trip and (2) pay excess air baggage charges in amounts up to \$15 for each leg of a trip. We expect this change to reduce the paperwork and processing activities of most Government agencies.

Proposed legislation which will exempt transportation payments from the scope of the statute prohibiting advance payment (31 U.S.C. 529) has been introduced in both Houses of Congress. All the major carrier associations favor enactment of the legislation. The principal shipping and auditing agencies of the Government—Department of Defense, GSA, and GAO—have filed comments with the congressional committees favoring passage of

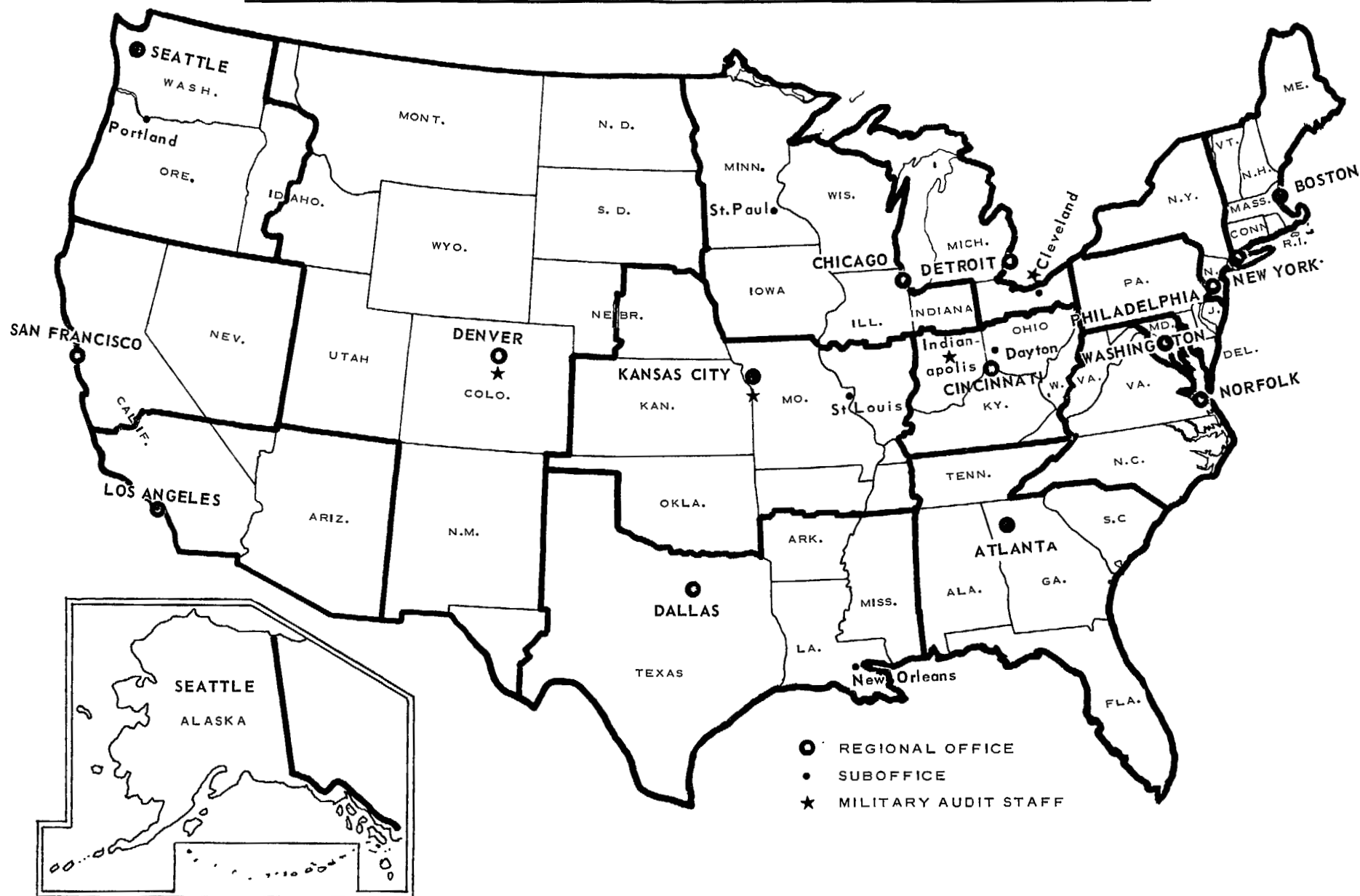
this legislation. The exemption proposed will enable the adoption of 16 recommendations of the study report, result in the removal of the principal impediment to timely payment, and simplify the documentation for freight shipments.

During the past year, we monitored a test of shipping Government freight by using the U.S. Government Bill of Lading with delivery certified by the carrier rather than the consignee. Reactions were most favorable and we are consolidating the test data to evaluate the benefits of this system.

Another major recommendation in which we participated with GSA was the extension of automatic payment for procuring passenger transportation by teleticketing machines. Fourteen agencies in the metropolitan Washington area have adopted the concept, which will (1) eliminate 125,000 Transportation Requests annually, (2) save \$650,000 per year in reduced paperwork, and (3) result in more timely payment of air carrier billings.

Other recommendations in the study report are being considered and will be implemented by letter and in the GAO Manual.

U. S. GENERAL ACCOUNTING OFFICE REGIONS



CHAPTER FOURTEEN

FIELD OPERATIONS

Responsibilities

The Field Operations Division through its headquarters staff and regional offices located in principal cities of the United States is responsible for performing accounting and auditing work assigned by the directors of all GAO's operating divisions. In addition, the Field Operations Division is directly responsible for performing assigned audits under the Government Corporation Control Act and similar legislation and the audit and settlement of accounts of military disbursing officers.

This division is under the supervision of John E. Thornton, Director, and Stewart D. McElyea, Deputy Director. The division's organization chart appears on the following page. A directory showing the location and managers of GAO regional offices, suboffices, and military audit staffs is included as Exhibit 10.

Audits of Federal Corporations and Other Activities

The Government Corporation Control Act (31 U.S.C. 841) requires GAO to make annual audits of the financial transactions of Government corporations "in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed

by the Comptroller General. . . ." Other laws provide similar audit authority for unincorporated business-type activities. The Field Operations Division is responsible for such audits of the following corporations and other activities.

Bureau of Engraving and Printing Fund
Federal Crop Insurance Corporation
Federal Deposit Insurance Corporation
Federal Home Loan Bank System
Federal Prison Industries, Incorporated
Federal Savings and Loan Insurance Corporation
Government National Mortgage Association
Government Printing Office Revolving Fund
National Credit Union Administration
Panama Canal Company and Canal Zone Government
Saint Lawrence Seaway Development Corporation
Student Loan Insurance Fund
Tennessee Valley Authority
Veterans Canteen Service

Our audit work in this area consists primarily of examining financial statements in accordance with generally accepted auditing standards. Twelve reports were submitted to the Congress during fiscal year 1972 in which we expressed our opinion on the financial statements of the Federal agencies involved. In addition, eight reports were issued to local officials of the Federal Prison Industries, Incorporated, relating to their financial management activities. These reports are included in the list of audit reports issued during fiscal year 1972. (See Appendix, Section III.)

As in prior years, we were unable to fully discharge our responsibilities for auditing the Federal Deposit Insurance Corporation because the Corporation would not permit unrestricted access to reports, files, and other records relating to the banks it insures. Without access to such records we were unable to make an adequate audit of the Corporation's activities and therefore we could not express an overall opinion of the Corporation's financial statements. Accordingly, we recommended in our report (B-114821, May 25, 1972) that the Congress enact legislation which will clarify this access-to-records problem. (See Appendix, Section IV, Item 19.)

For various reasons explained in the report on our audit of the financial statements of the Student Loan Insurance Fund for fiscal year 1970, we expressed the belief that the statements did not present fairly the Fund's financial position and the results of its opera-

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| DIRECTOR J. E. THORNTON |
| DEPUTY DIRECTOR S. D. McELYEA |

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| | | |
| ATLANTA, GA. REGIONAL MANAGER R. J. MADISON CAPE KENNEDY, FLA. HUNTSVILLE, ALA. WARNER-ROBINS, GA. | DENVER, COLO. REGIONAL MANAGER IRWIN M. D'ADDARIO ALBUQUERQUE, N. MEX. OGDEN, UTAH | NORFOLK, VA. REGIONAL MANAGER W. H. HENSON |
| BOSTON, MASS. REGIONAL MANAGER J. EDER | DETROIT, MICH. REGIONAL MANAGER C. H. MOORE CLEVELAND, OHIO | PHILADELPHIA, PA. REGIONAL MANAGER J. H. ROGERS, JR. HARRISBURG, PA. PITTSBURGH, PA. |
| CHICAGO, ILL. REGIONAL MANAGER M. R. WOLFSON ROCK ISLAND, ILL. ST. PAUL, MINN. | KANSAS CITY, MO. REGIONAL MANAGER K. L. WEARY, JR. OKLAHOMA CITY, OKLA. ST. LOUIS, MO. | SAN FRANCISCO, CALIF. REGIONAL MANAGER A. M. CLAVELLI REGIONAL MANAGER A. M. CLAVELLI SACRAMENTO, CALIF. SACRAMENTO, CALIF. |
| CINCINNATI, OHIO REGIONAL MANAGER R. W. HANLON DAYTON, OHIO INDIANAPOLIS, IND. | LOS ANGELES, CALIF. REGIONAL MANAGER J. H. STOLAROW | SEATTLE, WASH. REGIONAL MANAGER P. A. BERNSTEIN PORTLAND, OREG. PORTLAND, OREG. |
| DALLAS, TEX. REGIONAL MANAGER W. H. SHELLEY, JR. NEW ORLEANS, LA. SAN ANTONIO, TEX. | NEW YORK, N. Y. REGIONAL MANAGER A. J. STRAZZULLO | FALLS CHURCH, VA. REGIONAL MANAGER H. L. KRIEGER |

JUNE 30, 1972

tions. The Department of Health, Education, and Welfare concurred in our recommendations and took or planned appropriate action to implement them. (See Appendix, Section I, Item 34.)

Our opinion on the financial statements of the Panama Canal Company and the Canal Zone Government was qualified because:

The Company's policy of not depreciating or amortizing the cost of certain assets resulted in its understating the cost of operations by over \$3 million annually.

The collectibility of certain accounts receivable from the Republic of Panama was not certain.

Audit work in process at the end of the year included a review of the financial statements of the National Credit Union Administration.

Organizations Outside the Federal Government

In two reports addressed to the board of trustees, Government Services, Incorporated, we expressed our opinion on the financial statements of that company and its Employee Retirement and Benefit Trust Fund and Supplemental Pension Plan for the year ended December 31, 1971. The examinations were made at the request of the board.

In another report, we reported our opinion to the board of directors on the financial statements for fiscal year 1971 of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, a private, domestic nonstock corporation. The examination was made pursuant to the act of May 7, 1928 (22 U.S.C. 278a).

In these reports we stated that the financial statements presented fairly the financial position of the organizations audited.

Audit of Military Pay and Allowances

Regular audits and reviews of the administration of military pay and allowances, including leave and travel, are performed primarily on a centralized basis by GAO staffs at the four military finance centers in Cleveland, Ohio (Navy); Denver, Colo. (Air Force); Indianapolis, Ind. (Army); and Kansas City, Mo. (Marine Corps). In addition to auditing military pay and allowances, the Field Operations Division has the primary responsibility for reviewing finance center activities.

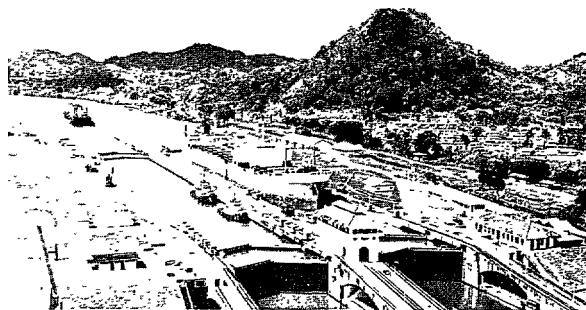
During the year, we submitted 93 reports to officials of the Department of Defense relating to the audit of military pay and allowances. Of these, six were directed to the secretariat level and dealt with such matters as ineffective audits of military pay, erroneous payments, need for better administration of the temporary lodging allowance program, ineffective control over Government Transportation Requests, and opportunity for savings in the management of bachelor officers' quarters. We made recommendations for improving controls and strengthening internal review procedures in these areas. (See Appendix, Section I, Items 199, 200, 201, 202, 203, and 245.)

The remaining 87 reports were addressed to lower level officials and dealt principally with matters relating to the accounts of individual disbursing officers and local policies, procedures, and practices. A list of the reports issued is included in Section III of the Appendix.

The number, variety, and complexity of entitlements provided by legislation covering military pay and allowances create difficult administrative problems. Although the military departments have taken prompt action on the erroneous or illegal payments we identified and have accepted suggestions for corrective measures to preclude recurrence, erroneous payments in significant numbers and amounts continue to be made.

We believe the administration of military pay and allowances will not be improved significantly until the present complex laws are simplified. The Department of Defense has made a number of studies in recent years concerned with simplifying the pay and allowance structure and has considered preparing legislative proposals for submission to the Congress; however, it has not yet submitted any proposals.

Presenting a tight fit in the southbound lane of Pedro Miguel Locks (Pacific side) is the "San Juan Prospector." Its 106.4-foot beam makes it one of the largest ships ever to transit the Panama Canal, which has 110-foot-wide chambers.



OFFICE OF PERSONNEL
MANAGEMENT

STAFF DEVELOPMENT & TRAINING

POSITION CLASSIFICATION

UPWARD MOBILITY PROGRAM

EMPLOYEE COUNSELING

HANDICAPPED EMPLOYMENT

EMPLOYEE RELATIONS

INCENTIVE AWARDS

DATA MANAGEMENT

SECURITY PROGRAM

EEO PROGRAM

RECRUITMENT

PLACEMENT

INTERNAL REVIEW POLICY

PROGRAM PLANNING

PAYROLL

PROCUREMENT

RECORDS MANAGEMENT

RECORDS INFORMATION

EDITORIAL SERVICES

BUDGET AND FINANCE

ILLUSTRATING SERVICES

DIRECTIVES MANAGEMENT

BUILDING MANAGEMENT

MANAGEMENT STUDIES

PUBLICATIONS MANAGEMENT

ADMINISTRATIVE SERVICES

OFFICE OF ADMINISTRATIVE

PLANNING & SERVICES

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CHAPTER FIFTEEN

ADMINISTRATION

Personnel Management

Under the leadership of Leo Herbert, Director, and Harley R. Climpson, Deputy Director, the Office of Personnel Management carries on the business of meeting immediate manpower requirements and working with management to identify future talent requirements and sources of acquisition as well as day-to-day administration of numerous personnel management programs.

An organization chart of this Office appears on page 150.

Recruitment and Assignment

Total GAO employment at June 30, 1972, was 4,826, of which 3,128 were members of the professional staff. A decade ago our professional staff accounted for approximately 40 percent of the total staff; by this fiscal year the percentage had increased to nearly 65 percent. The continued growth of the professional staff is the result of expanding Federal programs and additional responsibilities imposed on GAO by new legislation.

During the past 10 years, the increase in the size of the professional staff was not the only significant change. In response to the economic, social, and technological advances and changes in Federal programs, the backgrounds of our professional staff have become more diverse as one means of improving our capability

to review and evaluate management performance in all areas of Federal activity. Since 1967, individuals trained in professional fields, in addition to accounting, have been appointed in such disciplines as systems analysis, computer technology, actuarial science, economics, business administration (various curricula), mathematics, and engineering. At June 30 our professional staff included more than 500 members trained in fields other than accounting, most of whom were recruited at the college level.

COMPOSITION OF STAFF

Professional

| | |
|---|--------|
| Accountants and auditors | 2,446 |
| Actuaries and other mathematical scientists | 47 |
| Attorneys. | 99 |
| Computer specialists | 13 |
| Economists and other social scientists | 6 |
| Engineers. | 17 |
| GAO management auditors (business administration majors in finance, management, marketing, public administration, etc.) | 395 |
| Investigators | 11 |
| Management analysts | 47 |
| Personnel management specialists | 15 |
| Transportation specialists | 11 |
| Other | 21 |
| Total professional staff | 3, 128 |

Technical

| | |
|---|-----|
| Claims adjudicators and examiners | 93 |
| GAO fiscal auditors | 85 |
| Legal assistants | 11 |
| Transportation rate auditors | 276 |
| Total technical staff | 465 |

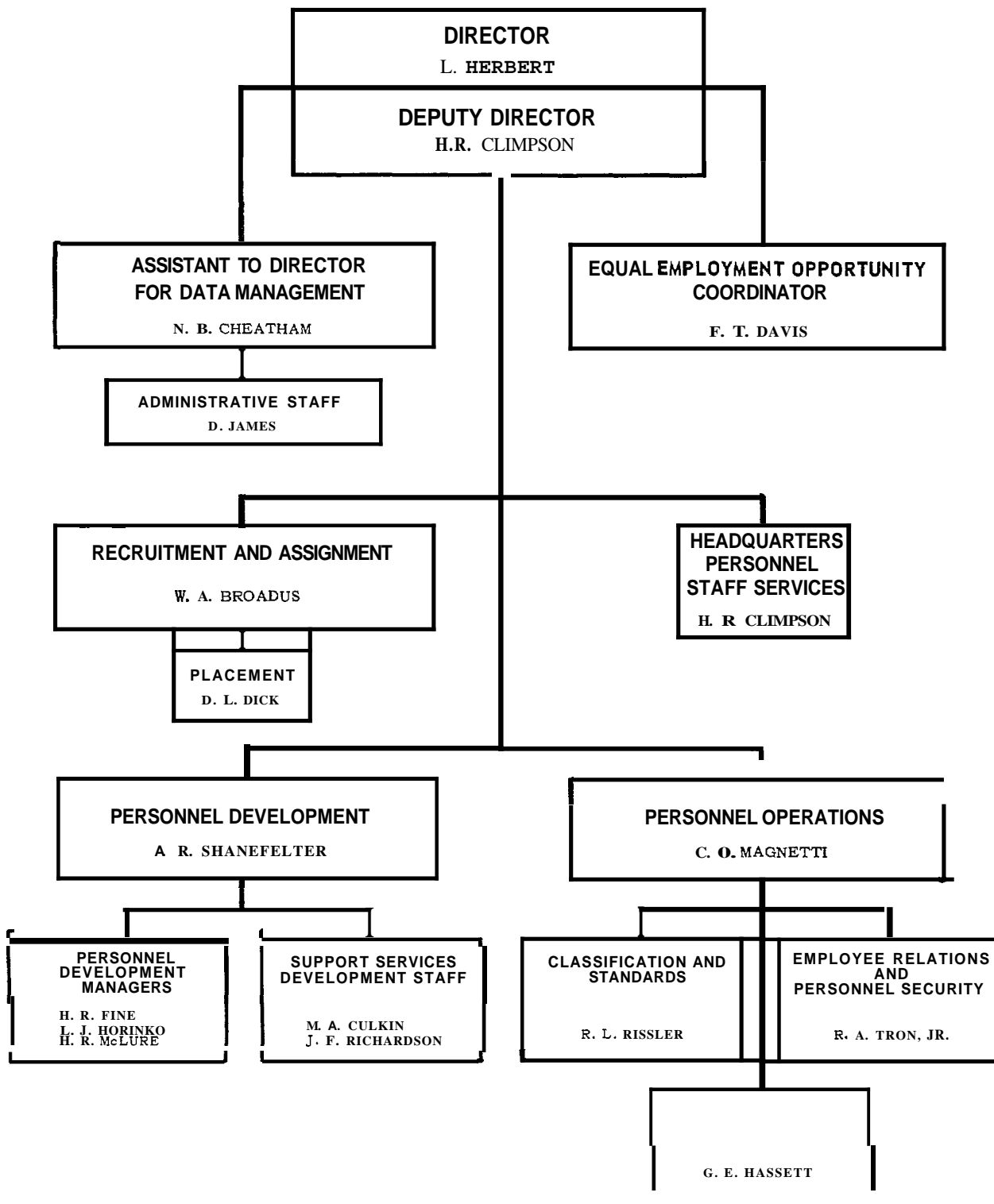
Other

| | |
|---------------------------------------|-------|
| Administrative and clerical | 1,176 |
| Wage board | 57 |
| Total other staff | 1,233 |
| Total | 4,826 |

Recruiting—Professional Staff

To maintain a highly qualified professional staff, the Office of Personnel Management coordinates and di-

OFFICE OF PERSONNEL MANAGEMENT



JUNE 30, 1972



Each year GAO recruiters visit hundreds of college and university campuses in search of prospective professional talent. Mrs. Gloria Mayer of our Washington Regional Office interviews at Georgetown University.

rects an extensive recruiting program at major colleges and universities throughout the country, including several traditionally minority schools. Our recruiters visited 293 campuses during fiscal year 1972. At these campuses they interviewed top students from which over 200 students with undergraduate and graduate degrees in such fields as accounting, marketing, finance, economics, mathematics, engineering, and systems analysis were subsequently appointed. A number of attorneys and law clerks were also recruited for our legal staff.

Acquainting college faculty and students with GAO is an important part of our recruiting program to attract top-quality graduates. It is essential that professors and placement officials be aware of the professional opportunities available to graduates. Twice a year, a panel of educator-consultants eminent in business administration, accounting, and related fields meets with top GAO officials to discuss directions in overall programs, to exchange information with us on trends in professional matters, and to suggest ways to improve our recruiting and staff development efforts. Over the years these meetings have proven valuable in encouraging academic and professional interest in and support of the work of the General Accounting Office.

We have also continued our program of conducting meetings with faculty members and placement officials from educational institutions throughout the United States. During the year such meetings were attended by over 50 educators. In addition, college and university students attended sessions held at the various

GAO regional offices, which offered them the opportunity to learn more about GAO.

Trends in our recruiting efforts are graphically shown on the two charts on page 152. These charts reflect the steady growth of the professional staff.

Recruiting—Support Staff

During fiscal year 1972 there was a continuing demand for competent secretarial and clerical staff to give greater assistance to our professional staff and to take care of normal attrition. During fiscal year 1971 a pilot recruiting program was established to attract top-quality secretarial and clerical personnel. This effort was focused at 2-year and 4-year colleges offering secretarial science degrees. The first-year program was productive and the program was expanded. During the year we made visits to 25 colleges throughout the Eastern United States and conducted interviews and administered civil service examinations. These recruiting efforts resulted in the appointment of 17 highly qualified secretarial graduates.

Our recruiting program for support staff also included visits to several local high schools in the Washington, D.C., area and resulted in our employing a number of promising new people.

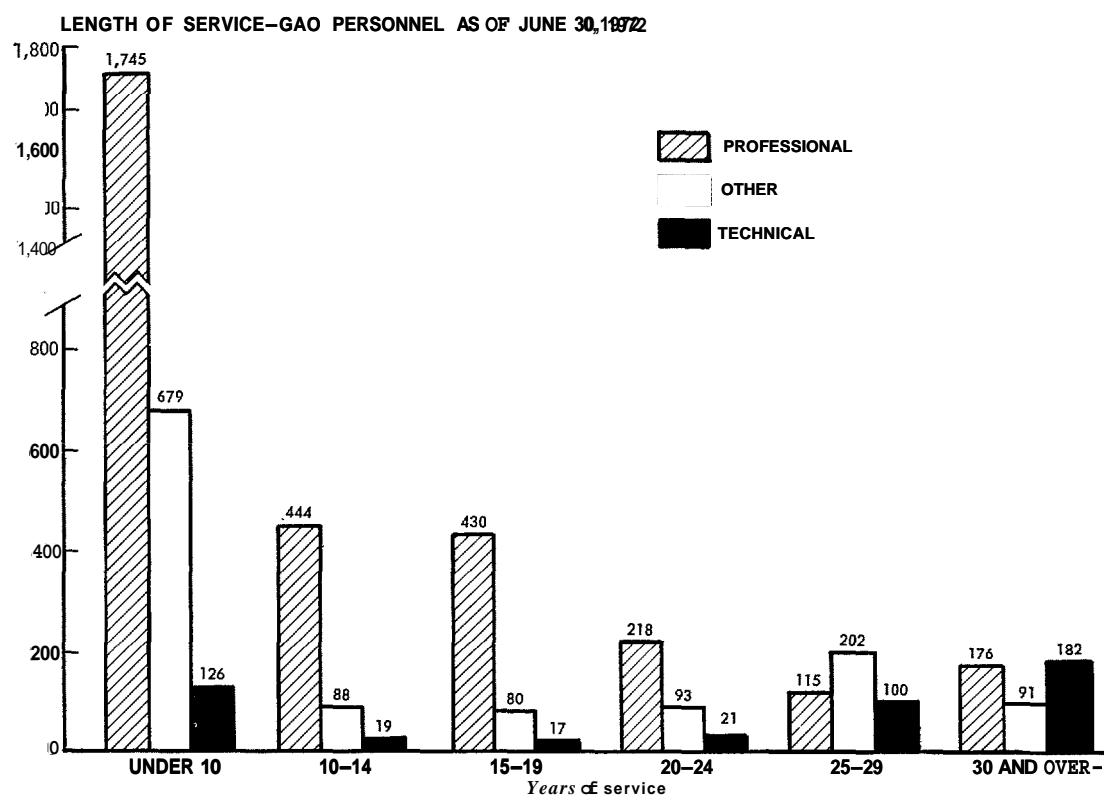
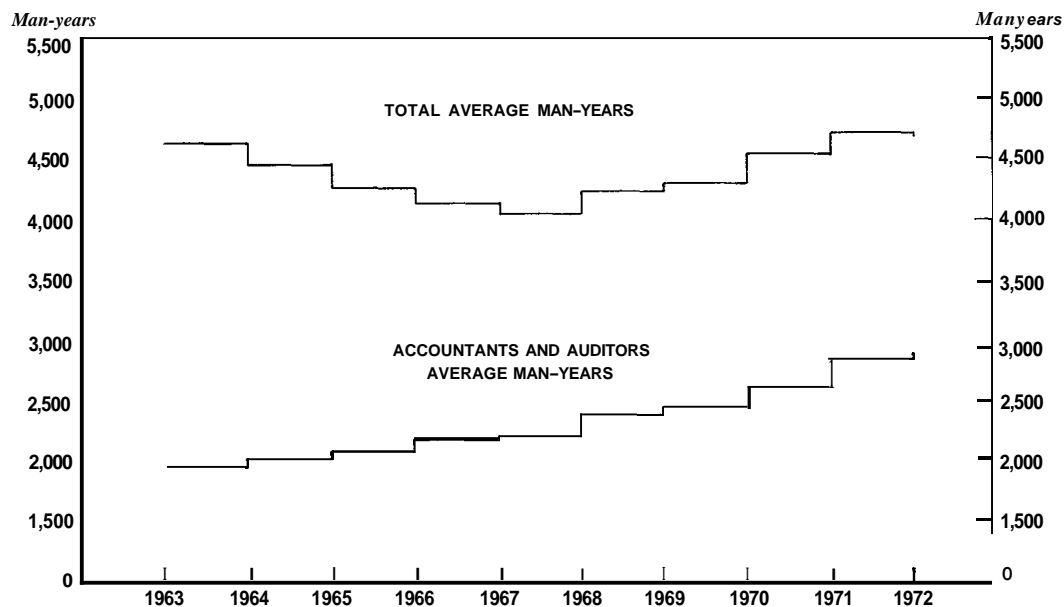
Staff Development

The growing complexity and diversity of our work requires knowledge of a variety of subjects and improved skills produced through continued planned development. If we are to be able to do our job well, our professional staff must be familiar with and keep abreast of developments in such fields as auditing, accounting, economics, management, financial management, mathematics, and a host of related subjects. Likewise, technical and support staff must be highly skilled and acquainted with the latest information and techniques. In addition to developing skills needed for current jobs, programs for technical and support staff try to foster upward mobility to the extent of each employee's capabilities. To that end training counselors are designated.

Internal Programs

Programs for Professional Staff

First-Year Orientation and Training. Most of our professional staff members are recruited upon gradua-



As of June 30, 1972, there were 4,826 GAO employees (exclusive of contract personnel) including 3,128 accountants, auditors, attorneys and other professional employees. Of the total number of employees, 2,276 (or 47.1%) had service of 10 years or longer.

tion from colleges and universities. As soon as they come on duty, we provide orientation in the operations of GAO so that they will understand the role they will play in our organization, as well as the "what and why" of our work. During the first year of a professional staff member's career, he is given on-the-job training, formalized classroom training, and counseling. Each new staff member receives a variety of work assignments and at least 12 days of classroom or other formalized instruction.

Intermediate Training. This 10-day course is offered to staff members with 15 months to 3 years of GAO experience. Techniques and practices are introduced to improve job performance, describe how staff and line organizations work together, and help familiarize staff members from the various divisions and regional offices with each other's work and responsibilities.

Supervision. This 5-day program for midlevel supervisors (supervisors in grade GS-12) provides training in organizational and human behavior and strategies for dealing with day-to-day interpersonal situations that occur in their work.

Managerial Approaches. This 5-day course is designed for staff members who are supervisors in grade GS-13 but who have not received classroom supervisory training during their careers. The course concentrates on human behavior in organizations and why people respond to supervision as they do.

Executive Forum. This program is designed to help upper-level managers to (1) understand the factors causing changes in organizational priorities, (2) recognize operating requirements as priorities change, and (3) update their knowledge of techniques of motivation and personal development. Guest speakers representing the Congress, executive agencies, private industry, and State or local governments discuss the role of GAO from their viewpoints. GAO management practices are discussed, and experts highlight recent developments in behavioral and organizational research.

Systems Analysis. This 10-day course is available to senior staff members to introduce them to advanced analytical techniques which can be used in auditing.

Report Development. The objective of this 5-day

Staff Manager Larry Horinko discusses behavioral theory at an informal session of an advanced supervisory training program for professional audit staff.



workshop is to help our staff to develop better reports more quickly. The workshop is designed to (1) improve coordination and communication between report planners, writers, reviewers, and those who read our reports and (2) increase each staff member's interest in writing clear, logical, and accurate reports. The workshop is based on the philosophy that planning both the audit and the report is critical to a lucid and timely report and that writing is a craft which can be developed through clear understanding of the English language and extensive practice.

Writing Skills. This 3-day workshop supplements the report development workshop and is designed to improve report- and letter-writing skills. The philosophy of communication; organization of sentences and paragraphs; editing; and the effective use of logic, syntax, and grammar are covered.

Federal Action and the People of Our Cities. The National Institute of Public Affairs has cooperated in sponsoring this 1-week seminar. It stresses the need for the coordination of Federal programs in the Nation's cities. Subjects discussed by a panel of experts include the urban condition; government in a metropolis; model cities; purposes and problems in community action, manpower programs, public education, transportation, health programs, public assistance, and law enforcement; life in the inner city; and a survey of how city dwellers view the Government. Participants are senior staff members of GAO and representatives of Federal, State, and local governments.

Instructor Training. Much of our training is done by interested staff members with special skills in the subject areas being taught. This course aids these staff members in becoming effective instructors.

Technical and Support Training

First-Line Supervision. This 5-day course is offered to first-line supervisors, principally technical and clerical employees, in the divisions which support the professional staffs. Current concepts and techniques of supervision; the importance of effective delegation; personnel management responsibilities; and the importance of attitudes, assumptions, and values held by supervisors are emphasized.

Second-Line Supervision. This 5-day course is offered to supervisors in grades GS-11 through GS-14 in the divisions and offices which support the professional staffs or which carry out our varied technical responsibilities, such as the audit of transportation payments and the settlement of claims by and against the

SUMMARY OF INTERNAL PROGRAMS

| Programs for Professional Staff | | Number attending |
|---|--|------------------|
| First-year orientation and training | | 514 |
| Intermediate training | | 330 |
| Supervision | | 148 |
| Managerial approaches | | 176 |
| Executive forum | | 109 |
| Systems analysis | | 99 |
| Report development | | 258 |
| Writing skills | | 249 |
| Federal action and the people of our cities | | 5 |
| Instructor training | | 7 |
| Other | | 288 |
| Technical and Support Training | | |
| First-line supervision | | 56 |
| Second-line supervision | | 102 |
| Officeskills | | 89 |
| Basic typing | | 41 |
| English style practice | | 57 |
| Seminar for secretaries | | 19 |
| Shorthand refresher | | 58 |
| Communications skills | | 108 |
| GAO orientations | | 22 |
| Total | | 2,735 |

Government. Current concepts and techniques of supervision; the importance of effective delegation; personnel management responsibilities; and the importance of attitudes, assumptions, and values held by supervisors are emphasized.

Office Skills. This course is designed for support services personnel in grades GS-2 through GS-4 and consists of eight 3-hour sessions. The materials reviewed are typical of those encountered during an 8-hour working day—mail handling, filing, meeting and dealing with people, telephone techniques, attitudes, and job enthusiasm.

Basic Typing. This is a 9-week, 90-hour course designed to teach support services personnel to type and to attain the proficiency level of 40 words per minute.

English Style Practices. This course is available to clerk-typists, stenographers, and secretaries who want to review preferred style practices in grammar, punctuation, capitalization, number usage, and spelling. The class meets for twelve 2-hour sessions.

Seminar for Secretaries. This seminar is designed for secretaries in grade GS-6 and above. Guest lectures are conducted by consultants and instructors in Government, industry, and education. The seminar em-



Development Specialist JoAnn Richardson monitors a multichannel dictation system in a shorthand refresher course for secretarial staff.

phasizes good human relations, communications, and office management.

Shorthand Refresher. This is a 27-hour, 3-week course for secretaries designed to increase their speed in taking shorthand dictation and improve their skill in transcribing. Grammar, punctuation, capitalization, and other related Government style practices are reviewed with practical exercises.

Communications Skills. This workshop, which consists of fourteen 2½-hour sessions, is designed to increase reading speed and comprehension, improve written and oral communication, and increase the listening ability of employees. It is for support services personnel in grades GS-2 through GS-4.

GAU Orientation. Through this 3-hour program, all new employees are made aware of the functions, policies, and procedures of GAO involving personnel matters. Employee rights, benefits, and responsibilities are also reviewed during this session.

Other Government and Non-Government Programs

We meet our training needs, in part, through internal training programs when there is a broad interest

and need among the staff. The great variety and constantly changing emphasis of our work leads to needs for specialized training in a broad spectrum of topic areas. We have found it advantageous to supplement internal training programs with training programs conducted by colleges, universities, professional organizations, and other Government agencies, including the Civil Service Commission.

Executive development programs at the Graduate Schools of Business Administration at Harvard University, Columbia University, the University of Michigan, and Stanford University; the Federal Executive Institute; the Industrial College of the Armed Forces; the National War College; the Executive Seminar Centers at Kings Point, N.Y., Berkeley, Calif., and Oak Ridge, Tenn.; and the Brookings Institution Conferences are some of the programs GAO managers attend.

In addition, many staff members have chosen to continue their education on their own time to keep abreast of new developments related to GAO's work. Courses include management sciences, quantitative approaches used in business, economics, law, and automatic data processing. We participate in defraying the cost of this training and encourage all our staff members in their developmental interests.

SUMMARY OF EXTERNAL PROGRAMS

| | Number attending | | Number attending |
|--|------------------|--|------------------|
| Civil Service Commission | | Colleges and Universities—Continued | |
| Accounting | 7 | Financial management | 12 |
| Communications | 87 | Human relations | 57 |
| Data processing | 48 | Law and contracts | 35 |
| Economics | 2 | Management and supervision | 164 |
| Executive development | 12 | Mathematics | 18 |
| Financial management | 9 | Operations research | 5 |
| Management and supervision | 42 | Programing, planning, budgeting | 5 |
| Mathematics | 1 | Statistics | 19 |
| Operations research | 2 | Systems analysis | 17 |
| Programing, planning, budgeting | 3 | Transportation | 9 |
| Statistics | 2 | Miscellaneous | 121 |
| Systems analysis | 4 | | |
| Miscellaneous | 57 | | |
| Other Federal Government Agencies | | Professional and Other Nonprofit Organizations | |
| Accounting and auditing | 23 | Accounting | 46 |
| Communications | 22 | Communications | 12 |
| Data processing | 17 | Contracts | 22 |
| Economics | 2 | Data processing and management information systems | 13 |
| Executive development | 4 | Economics | 1 |
| Financial management | 11 | Executive development | 9 |
| Law and contracts | 24 | Management | 16 |
| Management and supervision | 21 | Statistics | 1 |
| Mathematics | 2 | Systems analysis | 4 |
| Operations research | 6 | Transportation | 5 |
| Statistics | 4 | Miscellaneous | 176 |
| Transportation | 2 | | |
| Miscellaneous | 34 | | |
| Colleges and Universities | | Private Industry | |
| Accounting | 69 | Accounting | 25 |
| Actuarial science | 1 | Communications | 13 |
| Communications | 36 | CPA review | 4 |
| CPA review | 6 | Data processing and management information systems | 199 |
| Data processing and management information systems | 83 | Law | 3 |
| Economics | 81 | Management | 1 |
| Executive development | 5 | Miscellaneous | 34 |
| | | | |
| | | Total | 1,775 |

Fellowship and Interchange Programs

In spring 1972 three placements were made from the American Association of Collegiate Schools of Business (AACSB) — Sears-Roebuck Foundation Federal Faculty Fellowship Program. This program provides for appointments up to 1 year for full-time faculty members in AACSB-accredited schools for the general purposes of (1) contributing to the teaching and research functions of collegiate schools of business and administration by providing first-hand knowledge of the managerial and administrative problems of the Federal Government and (2) improving the adminis-

trative and managerial capabilities of the Federal Government by applying their particular expertise. For this program all costs except the fellows' salaries are borne by the Foundation. The three faculty members working with us under this program were from the University of Bridgeport, Tulane University, and Atlanta University.

For the first time, during fiscal year 1972, we participated in the Fellowship Program in Congressional Operations conducted by the Civil Service Commission under the sponsorship of the American Political Science Association. The purpose of the program is to help promising staff members develop greater knowl-

edge and understanding of congressional operations and of the relationship of the executive and legislative branches. Two of our professional staff members participated in this program.

This year five members of our professional staff were among the 13 Federal Fellows participating in the Intergovernmental Affairs Fellowship Program. Begun in 1969 at the urging of the Comptroller General, this 3-month program is for Federal officials who are or will be administering or auditing grant-in-aid programs. Its purpose is to help officials understand their roles and the impact of grants-in-aid at the State and local levels. Participants assigned to work at the State and local levels meet periodically to share and discuss common experiences. This program was originally developed jointly by the Brookings Institution, the Civil Service Commission, and the General Accounting Office and is now administered solely by the Commission. This past year our participants were assigned to the State governments of Pennsylvania and West Virginia; Fulton County, Ga.; and the cities of Jackson, Miss., and Richmond, Va.

Under provisions of the Executive Interchange Program, created in 1969 by the signing of Executive Order 11451, the President's Commission on Personnel Interchange made its first placement to the General Accounting Office in the fall of 1971. The placement, a tax specialist from The Mead Corporation, joined the former Civil Division for a 6-month assignment. Through the interchange program, executives are placed in challenging, responsible positions leading to innovation in industry and in government and fostering a joint attack on national economic and social problems. Starting in the fall of 1972, we expect to have our first out-placement to private industry.

Professional Recognition

Most States now recognize the professional nature of our work as meeting their eligibility requirements of the CPA certificate, but we are constantly working with State boards of accountancy and committees of professional organizations to keep them informed on the professional quality of our work.

During fiscal year 1972, 10 staff members passed the CPA examination and received their certificates immediately. During the same period, 23 employees received CPA certificates after fulfilling their experience requirements and five employees with CPA certificates joined our staff. At the present time, 522 staff members

are certified public accountants, and 102 others have passed the examination and will receive certificates when they complete their experience requirements.

During the year two staff members received their law degrees and 10 acquired bar membership. The staff now includes 125 who have been admitted to the practice of law in one or more of the States or the District of Columbia.

More than 30 staff members were awarded advanced academic degrees during the year including: Master of Business Administration (18), Master of Public Administration (4), Master of Science (6), Master of Financial Management (2), and several others in international affairs, commerce, and economics.

Educator-Consultants

Leading educators from colleges and universities continued to assist us in formulating our programs to obtain, develop, and retain an outstanding professional staff. For their advice and counsel during the year, we are indebted to the following educator-consultants:

Floyd A. Bond, Dean, Graduate School of Business Administration, The University of Michigan.

Don L. Bowen, Professor of Public Administration, College of Business and Public Administration, University of Arizona.

John W. Buckley, Director, Study Center in Accounting-Information Systems, Graduate School of Business Administration, University of California, Los Angeles.

John E. Champion, Professor of Accounting, School of Business, The Florida State University.

William W. Cooper, Dean, School of Urban and Public Affairs, Carnegie-Mellon University.

Robert W. French, Assistant to the President, Office of Institutional Planning and Programs, University of Alabama.

Paul V. Grambsch, Professor of Management, University of Minnesota.

Kermit O. Hanson, Dean, School and Graduate School of Business Administration, University of Washington.

Harry M. Kelly, Associate Dean, School of Commerce, New York University.

Ossian MacKenzie, Dean, College of Business Administration, The Pennsylvania State University.

James R. McCoy, Dean, College of Administrative Science, Ohio State University.



Liaison with the financial and management community is a significant responsibility for the Office of Personnel Management. Leo Herbert, Director, leads a presentation to Brookings Institution officials on the agency reorganization.

Frank P. Shenvood, Director, Federal Executive Institute, U.S. Civil Service Commission.

Milton Wilson, Dean, School of Business and Public Administration, Howard University.

Personnel Operations

On a continuing basis, we are called upon to reexamine policy, regulations, and procedures involving personnel management; to remain currently apprised of trends in general administration and develop new programs as needed; to gear up for and deal with emergency and high-priority situations; to promote better understanding between employees and management and insure improvements in supervisory practices; and to maintain and improve, if possible, programs and services for all our staff. Each of these concerns has been a factor in work performed during the past year.

Position Classification

The role of position classification is one of the most basic in a personnel management program and is especially critical in a period of organizational transition. Setting the demarcation among major functions and clearly defining specific areas of responsibility must be carried out under tight deadlines to permit the uninterrupted progress of vital program functions. The reorganization of the General Accounting Office, effective April 3, 1972, resulted in a substantial increase in the workload of our classification staff.

Because program responsibilities among the newly created divisions were realigned, a significant number of the executive positions in grades **GS-16**, 17, and 18 were superseded and new positions were identified, evaluated, described, and submitted to the Civil Service Commission for its approval as provided by law. In addition, professional, administrative, and support function positions were reviewed, described, and evaluated to permit the timely reassignment of assigned staff from organizations eliminated by the reorganization.

At the same time a major internal restructuring of clerical support functions in our Transportation Division (now merged as the Transportation and Claims Division) begun last year was completed concurrently with the general reorganization. A totally new job line was established which achieves considerable consolidation of functions under extensive job rotational programs. A comparable job-restructuring program is now underway for support functions relating to claims settlement work of the former Claims Division.

Overall, the responsibilities of our classification staff have increased greatly in recent years. With the Office in a state of innovative change and evolution, the total positions allocated in fiscal year 1971 were 25 percent greater than the average of the preceding 3 years. Because of the reorganization in GAO during 1972, the total jobs allocated for fiscal year 1972 were 168 percent over fiscal year 1971.

Equal Employment Opportunity and Upward Mobility

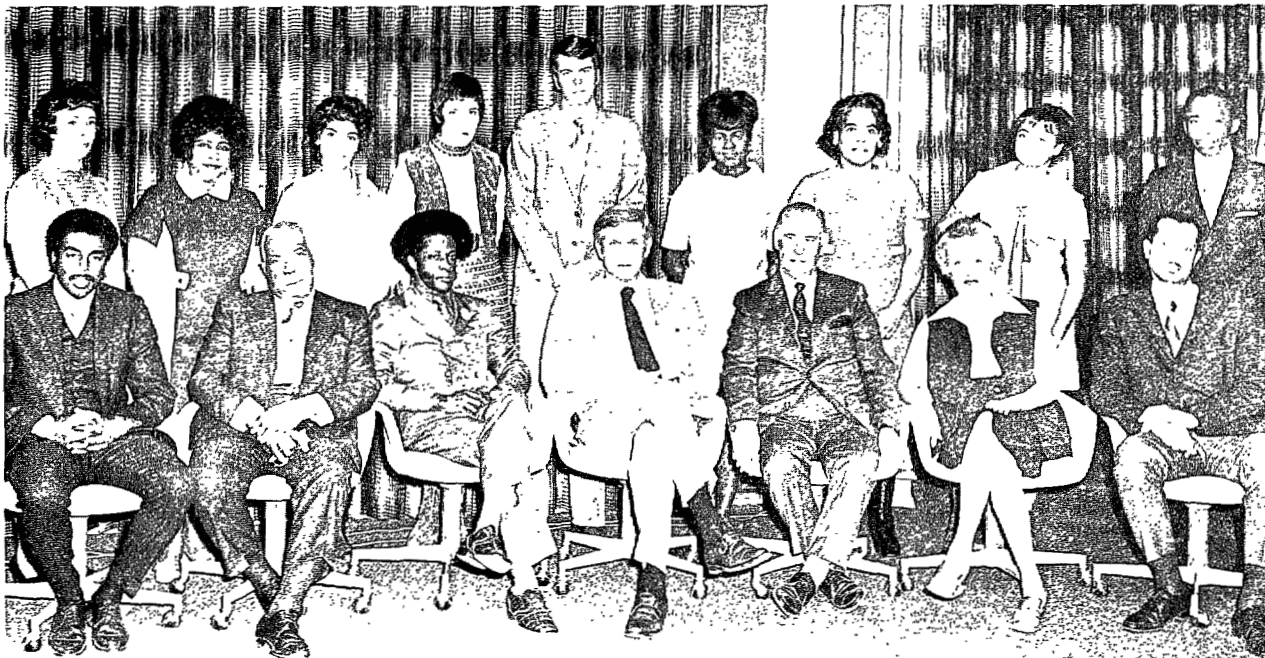
On May 31, 1972, the Comptroller General signed a new plan of action for our Equal Employment Opportunity (EEO) affirmative action program. Building upon previous actions taken, we made a number of significant changes in our organizational structure for equal employment opportunity activities. The Comptroller General established the Personnel Relations Planning Committee to consider and resolve policy matters in the areas of personnel relations, union activities, and equal employment opportunity. This Committee, comprised of key EEO personnel and members at the directorate level throughout the Office, meets quarterly. The Acting Director and Deputy Director, EEO; the EEO Coordinator; the Federal Women's Program Coordinator; the Director of Personnel Management (Chairman); and the Assistant Director for Personnel Operations function as a Steering Committee of the full Committee and meet semi-monthly.

To assist the Personnel Relations Planning Committee and provide assurance that the voice of every

employee is heard, the EEO Advisory Council has been established. The Council, which consists of 15 employees representing their coworkers in the various divisions and employee organizations, provides a channel for meaningful participation between employees and management in EEO matters. A full-time EEO Coordinator, assigned to the Office of Personnel Management, was appointed in fiscal year 1971. He has responsibility for coordinating all aspects of the Office EEO action plan and related EEO activities.

Several programs affecting the career development of all support staff have also been instituted. Positive results in the Transportation and Claims Division include the establishment of a full-time Career Development Coordinator, designation of training advisers for all employee levels, establishment of career ladder opportunities for lower graded clerical personnel, job restructuring, and provisions for initial job-training assignments. Job-training assignments are also in progress in the Publications Branch of the Office of Administrative Planning and Services. These assignments afford employees the opportunity to learn the work in several areas and thereby improve their qualifications for higher graded positions.

Equal Employment Opportunity Advisory Council meet: Seated, from the left: Frank T. Davis, EEO Coordinator; Otha J. Miller, President, Black Caucus Association; Edward W. Ford, Jr., Vice President, National Federation of Federal Employees; Milton J. Socolar, Director, EEO; Carl C. Berger, President, GAO Employees Association and Vice Chairman, EEO Advisory Council; Laura H. Stimson, President, American Federation of Government Employees; and Barney R. Putnam, Jr., Chairman, EEO Advisory Council. Standing, from the left are Charlotte C. Hurley; Anna H. Jackson; Gertrude E. Dickson; Jo-An M. Argiros; John A. Wanska; Everlena B. Thompson, Secretary, EEO Advisory Council; Orilee L. Fauntroy; Patricia D. Moore; and James Harris, Jr.



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Increased attention has been given toward recruitment efforts at colleges and universities with heavy minority enrollments. This effort has involved regional staff members as well as headquarters officials and has resulted in an increased rate of minority and female selections.

Our new action plan further sets forth 12 objectives toward which we shall be working in the next year and beyond. They are :

Recruiting at colleges and universities, from private industry, and from government in such a manner as to promote the full realization of equal employment opportunity for all, including women and members of minority groups.

Achieving an annual goal of obtaining at least 10 percent of professional recruits for each division and office from among minority group members and at least 10 percent from among female members.

Developing and conducting an evaluation program covering activities of personnel who successfully complete Office career development training programs in the support services area.

Increasing the use and effectiveness of EEO Counselors.

Increasing the participation of EEO Officers in EEO matters.

Increasing awareness in the field of the high priority which the Office accords its EEO program.

Reducing the potential for allegations by employees and third parties that equal employment opportunity is being denied in areas of personnel management.

Increasing services support staff by creating new support job classifications.

Establishing an annual Equal Employment Opportunity Award.

Establishing an effective means of regularly informing all employees of internal EEO matters and related outside developments.

Increasing employee confidence in the Office Merit Promotion Program.

Improving the physical environment of work areas having a substantial concentration of minority group employees.

Alcoholism Prevention and Rehabilitation Program

On January 25, 1972, the Comptroller General, in conformance with section 201, title 2 of Public Law

91-616, signed into effect Comptroller General's Order No. 1.47, establishing the Alcoholism Prevention and Rehabilitation Program within GAO. The program's purpose is to establish and define our policy and philosophy regarding problem drinking or alcoholism as it affects work performance, attendance, conduct, or reliability of our employees. It is also intended to provide guidance to management and employees regarding recognition of the problem of alcoholism and the methods of dealing with it in an enlightened and effective manner. The goal of the program is to assist employees in preventing and combating alcoholism and the problems associated with the abuse of alcohol. We will provide appropriate educational programs and individual counseling and advice regarding the use of available rehabilitation facilities.

An administrator has been assigned to be responsible for the total operation of the program and to serve as program coordinator for the Washington area. Additional coordinators have been assigned at each regional office and will work with the administrator in the conduct of the program.

Preretirement Counseling

Recognizing that retirement is a major event in the life of an employee and that an employer has a responsibility to assist the employee in making the transition from active employment to retirement, we have established a program of preretirement counseling. The new program will consist of:

Long-range retirement planning—aimed at the younger employee (initially employees age 50 and over) and consisting of periodic meetings designed to acquaint the future retiree with some aspects of retirement life and stimulate thinking on the part of the employee regarding such subjects as investments, insurance, second careers, hobbies, and relocation.

Preretirement planning—intended to provide the prospective retiree with specific information regarding Civil Service Commission benefits, including annuity, insurance, medical coverage, etc. This phase is designed for the employee who is at or near retirement eligibility. Small group meetings will be held, and the participants will be encouraged to ask questions and exchange information regarding their own plans and problems.

Retirement counseling—consisting of individual counseling sessions for those employees who feel a need for additional and personal assistance.

Administrative Planning and Services

In December 1971, the Office of Administrative Services, the Data Processing Center, and the Organization and Management Planning Staff were consolidated into the Office of Administrative Planning and Services, under the supervision of Clerio P. Pin, Director. As can be seen on the organization chart on the following page, the Office is divided into five major components.

Organization and Management Planning Staff

The Organization and Management Planning Staff was officially established August 12, 1971. It has been operating since April 1971, working primarily on high priority projects assigned by the Comptroller General and the then-Assistant to the Comptroller General for Management Services. These projects, which involved followup and implementation of recommendations made by several study groups, included :

- Improvement of report processing and review procedures.

- Evaluation of selected personnel management activities.

- Opportunities to improve planning for accounting and audit functions.

The staff also studied organizational and procedural problems assigned by the Comptroller General or begun on its own initiative and designed, tested, and assisted in the implementation of approved recommendations. These studies included :

- Washington-Field relationships.

- Internal and external ADP activities.

- Job management practices.

The staff provided management analysis on request to divisions and offices to help solve major problems related to organization and management. A request by the General Counsel for an evaluation of that Office's Legal Reference Services is typical of the management analysis provided.

The staff continually monitors our short-range programming system, provides overall control of GAO's management information system, and is responsive to the increased emphasis placed on GAO's management improvement program.

Records Management and Services Branch

Two major changes during the fiscal year and two new responsibilities added greatly to the amount and diversity of the Branch's activities.

The reorganization of the General Accounting Office in the spring required a major realignment of office space with a corresponding need for new office construction, new furnishings, new utility installations, and relocation of the staff involved. Over 500 people and their office equipment were moved during fiscal year 1972.

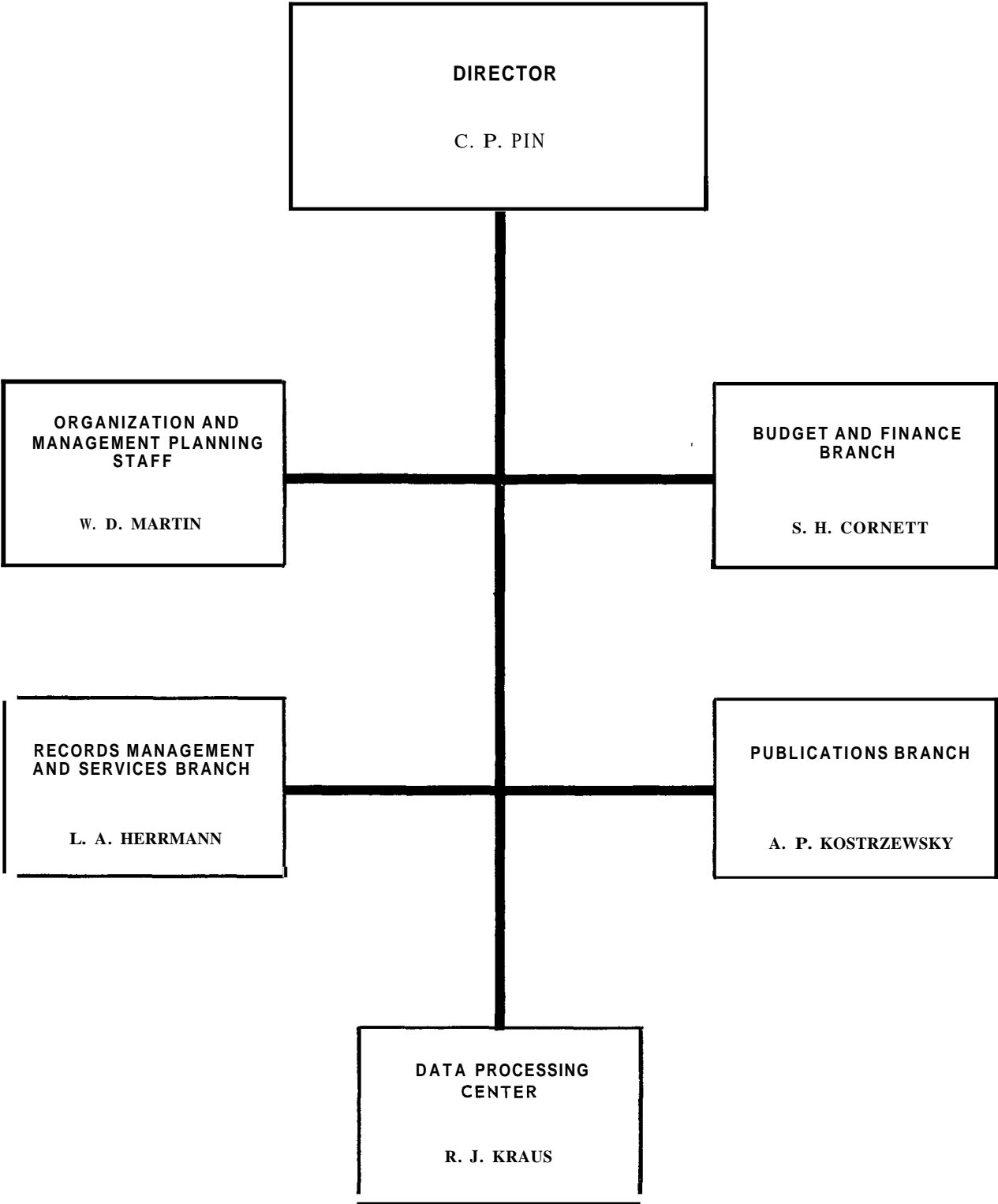
The second major project, related to the first, involved the renovation and occupation of space in the GAO Building formerly used by the Federal Power Commission. In a program to upgrade interior space that had never been intended for high-occupancy office space, some 25,000 square feet were completely rebuilt. The work included installing a new ceiling (with lighting and air conditioning improvements), changing office layout, and acquiring new furnishings, equipment, and flexible partitioning. This effort was the first step in a program which has been presented to the Congress as a long-range effort to improve offices in the GAO Building.

Near the end of the year the Branch's responsibilities were increased by the creation of a centralized travel unit and the transfer of the report editing function from the Publications Branch. The travel unit was a direct outgrowth of GAO's reorganization. It will provide one central point for the full range of travel needs: airline and automobile reservations, schedule information, assistance in preparing travel vouchers, etc. The relocation of the editing function and its designation as the Editing and Special Reports Section resulted from an internal realignment of the Office of Administrative Planning and Services.

Many of the more routine activities of the Branch supported or were affected by the above activities. Purchases for the nationwide needs of GAO, from both Government and commercial sources, were made by over 5,000 separate purchase actions. In addition to these purchase actions, the Supply Section is responsible for monitoring the receipt of the purchases, maintenance of accountability records, and the full range of property management and disposal activities.

An equipment repair and carpenter staff continued to serve the Washington offices, and a mail and messenger staff provided mail delivery and special services daily throughout the GAO Building and to some 45 audit sites located in the metropolitan area.

OFFICE OF ADMINISTRATIVE PLANNING AND SERVICES



JUNE 30, 1972

The Records Information Section of the Branch answered nearly 800 requests from private individuals or Government agencies for access to, or information from, GAO records. The Illustrating Services Section provided well over 8,000 pieces of individual artwork in response to over 1,640 separate requests. This program of audiovisual support for GAO audit reports and internal presentations has grown significantly in the last 2 years.

The records management responsibilities of the Branch included approval of over 60 records disposal schedules of other agencies for records in which GAO is interested. Also, a new Records Disposal Manual for GAO was prepared and a study was begun to shorten the retention period of some of the more than 900,000 cubic feet of records maintained for GAO in Federal Records Centers.

Data Processing Center

The Office of Administrative Planning and Services provides a variety of ADP services to other divisions and offices, including:

- Training of the professional staff in the use of generalized information retrieval software.

- Operation of a medium-scale computer to assist the audit staff.

- ADP system analysis, design, and programing of internal management information systems, such as payroll, manpower and personnel statistics, budget, and special requests from the audit staff.

Typical systems operational on GAO's existing ADP equipment are:

- Accounting and Auditing Programing Scheduling and Reporting System. This system provides management with timely and reliable data to aid in planning, controlling, and evaluating audit assignments. The system permits selective research and retrieval of information pertaining to a data base of 1,200 audit assignments in process or recently completed.

- Computerized audit of Government-funded domestic shipment of household goods. This system, designed and programed by the staff of GAO's Transportation and Claims Division, quickly identifies overcharges against the Government and prepares notices to commercial carriers.

At yearend plans were being made to devote the existing computer solely to the automation of certain

audit activities of the Transportation and Claims Division. The remaining systems would be transferred to other Government-owned computers.

Budget and Finance Branch

The Budget and Finance Branch :

- Prepares in final form and administers the GAO budget.

- Maintains liaison with the Office of Management and Budget (OMB) and prepares such reports as may be required by OMB, the Treasury, and others on budget, payroll, and related financial matters.

- Maintains the central administrative accounting and financial reporting systems, including the summary accounting control and deposit of all GAO collections involving all Government agencies.

- Examines and certifies administrative vouchers and invoices covering operating expenses.

- Prepares, examines, and certifies GAO payrolls, including the maintenance and audit of individual leave and retirement records.

During fiscal year 1972, work on a computerized payroll system was substantially completed. (Conversion from the present manual system was made in August 1972.) The primary benefit of the new automated payroll system will be the ability to produce, automatically and efficiently, payroll and related reports needed for financial management reporting and other use. Also, it is expected that the new system will reduce tedious clerical work, simplify Treasury check-issue procedures, and improve services to employees.

During the year, a new procedure was devised whereby responsibilities for processing payment of reimbursable travel could be transferred from the Budget and Finance Branch to the regional offices. At the end of the fiscal year, the Branch assigned this responsibility on a trial basis to four of the 15 regional offices with the objective of extending it to all 15 offices if the procedure provides better service to regional office employees. Under the new procedure, the regional offices will process and certify travel advances and vouchers for payment for field employees, reporting the results of their operations monthly to the Budget and Finance Branch for central accounting purposes.

We are arranging for the design of a new automated accounting system to update our approved system. It will use ADP techniques, permitting financial data to be entered into the system only once to automatically

ADMINISTRATION

update the accounts and produce obligation, budget, general ledger, and cost information. Financial plans, apportionments, and other constraints will be entered into the system, permitting us to compare performance with plans.

Using **ADP** is expected to improve the timeliness and, thus, the usefulness of financial reporting; provide greater ability to prepare a variety of reports pertinent to management; and provide the capability to combine financial data with that in other subsystems to produce meaningful information related to productivity and unit cost for management.

To prevent a proliferation of data of questionable value, the Branch is in the process of reviewing the reports made to management to make them more informative, timely, and useful in management decisions.

Publications Branch

The Publications Branch performs the functions of copy preparation, copying, printing and binding, and distributing GAO material. The Comptroller General's audit reports constitute the major product of the Publications Branch. Because of the sensitivity and significance of these reports, special attention is given to them so that they reflect the highest standards in preparation and production and so that they are distributed promptly and properly. Other material produced by the Branch consists of manuals, decisions, digests, memorandums, regulations, forms, congressional statements, drafts, audit programs, and other documents in accordance with prescribed policies and procedures. The Distribution Section requisitions and distributes other Government agencies' material pertinent to GAO.

The Publications Branch also:

- Furnishes information on legal, regulatory, and procedural printing requirements and provides advice and assistance on such matters as methods and techniques, costs, schedules, and whether printing services can or should be provided by the Branch or should be obtained from the Government Printing Office (GPO).

- Prepares and submits specifications and requisitions for printing obtained from GPO.

- Represents GAO before the Joint Committee on Printing and prepares reports and requests to this Committee.

- Sells copies of reports in accordance with prescribed procedures, maintains appropriate records of

- all sales and cash receipts, and transfers all amounts collected to the Administrative Finance Section.

- Furnishes photoprints and enlargements or reductions of material as necessary.

- Recommends the acquisition and disposal of un-serviceable or surplus equipment.

Because of the increase in the number of reports and other work, the equipment in the Publications Branch has been modernized. The Copy Preparation Section uses the latest magnetic tape and card typesetting systems. The Printing Section has been equipped with roll-fed perfecter presses, high speed collators, and platemakers. The Distribution Section uses a new efficient addressing and central locator system. A Fast Copy Center will soon be established with fully automated equipment which will provide short run copies efficiently and economically.

Policy

The Office of Policy, under the supervision of Allen R. Voss, Director, is responsible for advising and assisting the Comptroller General on policy formulation, guidance, and review with respect to all GAO functions.

The responsibilities of this group include (1) conducting or sponsoring research in accounting and auditing theory, objectives, practices, and techniques, (2) developing auditing policies, standards, and procedures for the guidance of GAO's operating divisions, (3) furnishing policy advice on accounting and auditing problems, and (4) reviewing proposed reports for the Comptroller General's signature. It also advises and assists in developing operating policies and guidance for GAO's legislative, legal, claims, and administrative activities.

Program Planning

The Office of Program Planning, directed by William N. Conrardy, is responsible for advising the Comptroller General on GAO objectives, organizational responsibilities and emphasis, resource requirements and allocations, and direction of effort. It is also responsible for monitoring and evaluating the operational planning of the various GAO divisions.

A primary purpose of this office is to promote effective planning as an integral part of each GAO organizational unit. All such planning is directed toward achieving overall GAO objectives. Recognizing that

the most useful plans are those prepared by the persons who will later implement them, this group provides guidance, direction, and counsel but does not prepare the actual plans. During 1972 further improvements were made in the officewide planning system, which is the mechanism for determining where our manpower resources are best applied and insuring that these determinations are in line with our overall objectives of rendering maximum assistance to the Congress and contributing to improving the conduct of Government programs and activities.

internal Review

The Office of Internal Review, under the supervision of Lloyd G. Smith, Director, is responsible for reviewing the operations and performance of all **GAO** divi-

sions and offices. The internal review work includes (1) evaluating GAO performance under established policies and procedures and identifying ways of achieving more effective, efficient, and economical performance, (2) examining and evaluating the extent and nature of compliance with prescribed GAO policies, plans, and procedures, (3) reviewing the system of management controls over operations and resources, (4) examining accounts, financial transactions, and other management reports from the standpoint of reliability and usefulness, and (5) making specific examinations requested by the Comptroller General. The office prepares reports for the Comptroller General and the Deputy Comptroller General setting forth the findings, conclusions, and recommendations growing out of such reviews. A major study in process at the end of the year was a comprehensive evaluation of GAO's personnel management systems.

NUMBER OF AUDIT REPORTS ISSUED DURING FISCAL YEAR 1972¹

| | Total | Congress ² | Committees or Members of Congress ³ | Agency officials ⁴ |
|--|-------|-----------------------|--|-------------------------------|
| Civil departments and agencies: | | | | |
| Civil departments | 278 | 59 | 104 | 115 |
| Independent agencies | 167 | 38 | 75 | 54 |
| Legislative branch | 15 | 4 | 11 | |
| | 460 | 101 | 190 | 169 |
| Military departments: ⁵ | | | | |
| Department of Defense | 108 | 17 | 33 | 58 |
| Department of the Army | 82 | 4 | 23 | 55 |
| Department of the Navy | 76 | 5 | 16 | 55 |
| Department of the Air Force | 108 | 3 | 18 | 87 |
| | 374 | 29 | 90 | 255 |
| International activities | 70 | 15 | 25 | 30 |
| Government-wide and multiagency activities | 39 | 4 | 23 | 12 |
| Organizations outside the Federal Government | 5 | 1 | 1 | 3 |
| Total | 948 | 150 | 329 | 469 |

NOTES

¹ A detailed listing of these reports is contained in the Appendix, Section III. Substantially identical reports shown more than once in the listing have been counted as one report. A compilation of findings and recommendations in these reports is contained in the Appendix, Section I.

² Reports submitted to the Congress are addressed to the President of the Senate and the Speaker of the House of Representatives. Copies are sent to the Director, Office of Management and Budget; the Senate and House Committees on Appropriations; the Senate and the House Committees on Government Operations; the appropriate legislative committees in the Senate and the House; Members of the Congress from

the districts in which the activities reported are located; others in the Congress as requested; the President of the United States as appropriate; the agencies reported on; and others directly affected.

³ Includes reports addressed to officers of the Congress.

⁴ Comprises reports addressed to heads of departments or agencies, to other officials at department or agency headquarters, to department or agency officials at regional or other local offices, or to commanding officers at military installations.

⁵ Exclusive of international, Government-wide, and multi-agency activities which are listed separately.

LEGISLATION ENACTED DURING FISCAL YEAR 1972 RELATING TO THE WORK OF THE GENERAL ACCOUNTING OFFICE

AUDITS

Emergency Loan Guarantee

Public Law 92-70, August 9, 1971, 85 Stat. 178, Emergency Loan Guarantee Act, creates an Emergency Loan Guarantee Board for the purpose of guaranteeing loans to major business enterprise. Section 7(b) requires the *General Accounting Office* to make a detailed audit of the transactions of any borrower who applies for a loan guarantee under this act. *GAO* is to report the result of such audit to the Board and the Congress. (85 Stat. 180)

Pacific Island Trust Territory

Public Law 92-76, August 10, 1971, 85 Stat. 229, Department of the Interior and Related Agencies Appropriation Act, 1972, contains the usual proviso for audit by the *General Accounting Office* of all financial transactions of the Trust Territory, including transactions of all agencies or instrumentalities established or utilized by the Trust Territory. The proviso stipulates that the audit shall be made in accordance with the provisions of the Budget and Accounting Act, 1921, and the Accounting and Auditing Act of 1950. (85 Stat. 233)

G 5 A Aircraft Procurement

Public Law 92-156, November 17, 1971, 85 Stat. 423, the military procurement authorization for 1972, provides in section 504 for a \$325,100,000 C-5A aircraft procurement contingency fund. The section requires that all payments made to the prime contractor through a special bank account be audited by the Defense Contract Audit Agency and, on a quarterly basis, by the *General Accounting Office*. The Comptroller General must issue a report to Congress not more than 30 days after the close of each quarter. (85 Stat. 428)

Unemployment Compensation

Public Law 92-224, December 29, 1971, 85 Stat. 810, Emergency Unemployment Compensation Act of 1971, provides in section 204(a)(2) that the Secretary of Labor shall certify to the Secretary of the Treasury sums payable to each State under the title and that the Secretary of the Treasury, prior to audit or settlement by the *General Accounting Office*, shall make payment to the State in accordance with such certification by transfers from the extended unemployment compensation account to the account of such State in the Unemployment Trust Fund. (85 Stat. 814)

Trust Territory Economic Development Loan Fund

Public Law 92-257, March 21, 1972, 86 Stat. 87, relating to the Trust Territory of the Pacific Islands, establishes the Trust Territory Economic Development Loan Fund and provides the *Comptroller General* access to the relevant records of the government of the Trust Territory for audit and examination. (86 Stat. 88)

National Railroad Passenger Corporation

Public Law 92-316, June 22, 1972, 86 Stat. 227, amends the Rail Passenger Service Act of 1970 to provide financial assistance to the National Railroad Passenger Corporation. To audit the financial transactions of the Corporation, the *Comptroller General* is provided access to the records of any railroad with which the Corporation has entered into a contract for the performance of intercity rail passenger service if the records pertain to the railroad's financial transactions and are necessary to facilitate the audit. The *Comptroller General's* representatives are to be afforded full facilities for verifying transactions with the balances or securities held by depositories, fiscal agents, and custodians. (86 Stat. 233)

Federal Education Program

Public Law 92-318, June 23, 1972, 86 Stat. 235, Education Amendments of 1972, adds a new section 417 to the General Education Provisions Act to provide for review, audit, and evaluation of Federal education programs by the *Comptroller General* with particular attention given to the practice of Federal agencies contracting with private firms for a wide range of educational program studies and services.

Sec. 417. (a) The *Comptroller General of the United States* shall review, audit, and evaluate any Federal education program upon request by a committee of the Congress having jurisdiction of the statute authorizing such a program or, to the extent personnel are available, upon request by a member of such committee. Upon such request, he shall (1) conduct studies of statutes and regulations governing such program; (2) review the policies and practices of Federal agencies administering such program; (3) review the evaluation procedures adopted by such agencies carrying out such program; and (4) evaluate particular projects or programs. The *Comptroller General* shall compile such data as are necessary to carry out the preceding functions, and shall report to the Congress at such times as he deems appropriate his findings with respect to such program and his recommendations for such modifications in existing laws, regulations, procedures and practices as will in his judgment best serve to carry out effectively and without duplication the policies set forth in education legislation relative to such program.

(b) In carrying out his responsibilities as provided in subsection (a), the *Comptroller General* shall give particular attention to the practice of Federal agencies of contracting with private firms, organizations and individuals for the provision of a wide range of studies and services (such as personnel recruitment and training, program evaluation, and program administration) with respect to Federal education programs, and shall report to the heads of the agencies concerned and to the Congress his findings with respect to the necessity for such contracts and their effectiveness in serving the objectives established in education legislation.

(c) In addition to the sums authorized to be appropriated under section 400(c), there are authorized to be appropriated such sums as may be necessary to carry out the purposes of this section. (86 Stat. 334)

Tinicum National Environmental Center Cooperative Agreements

Public Law 92-326, June 30, 1972, 86 Stat. 391, provides for the establishment of the Tinicum National Environmental Center to preserve from imminent destruction the last remaining true tidal marshland in the Commonwealth of Pennsylvania. The Secretary of the Interior may enter into cooperative agreements with the Commonwealth and its political subdivisions, corporations, associations, or individuals to carry out the

provisions of the act, and the Secretary and the *Comptroller General* are provided access to records pertinent to the cooperative agreements entered under the act. (86 Stat. 392)

ACCESS TO RECORDS

Grants to States

Public Law 92-75, August 10, 1971, 85 Stat. 213, Federal Boat Safety Act of 1971, authorizes the establishment of State boating safety programs and the allocation of Federal financial assistance to the States. The *Comptroller General* is provided access to records pertinent to Federal funds allocated. (85 Stat. 225)

Public Law 92-255, March 21, 1972, 86 Stat. 65, the Drug Abuse Office and Treatment Act of 1972, establishes, among other Federal programs, drug abuse prevention formula grants and special project grants and contracts. Section 411 provides the *Comptroller General* access to records of grant recipients under these programs. (86 Stat. 83)

Public Law 92-258, March 22, 1972, 86 Stat. 88, amends the Older Americans Act of 1965 to provide grants to States for establishing, maintaining, operating, and expanding low cost meals projects, nutrition training and education projects, and opportunity for social contacts. Section 106(b) provides access to records by the *Comptroller General* as they pertain to grants or contracts received. (86 Stat. 94)

Economic Opportunity and Manpower Development Grants

Public Law 92-184, December 15, 1971, 85 Stat. 627, Supplemental Appropriations Act, 1972, requires that all grant agreements provide for *General Accounting Office* access to the records of the grantee which bear exclusively upon the Federal grant in the case of manpower training services of the Manpower Administration, Department of Labor (85 Stat. 630), and the economic opportunity program of the Office of Economic Opportunity (85 Stat. 633).

Foreign Aid Program

Public Law 92-242, March 8, 1972, 86 Stat. 48, Foreign Assistance and Related Programs Appropriation Act, 1972, contains a provision for access to

records of the Inspector General, Foreign Assistance, by the *General Accounting Office*, unless the President certifies that he has forbidden the Inspector General to furnish the records and gives the reason for so doing. (86 Stat. 55)

ELECTION REFORM

Presidential Election Campaign Fund Act

Public Law 92-178, December 10, 1971, 85 Stat. 497, Revenue Act of 1971, includes as title VIII, the Presidential Election Campaign Fund Act which establishes in the U.S. Treasury, effective January 1, 1973, a special fund to be known as the Presidential Election Campaign Fund from which payments to eligible candidates are disbursed. The *Comptroller General* is required to certify to the Secretary of the Treasury payments to which candidates are entitled; audit qualified expenses of candidates of each political party for President and Vice President; and report to Congress after each presidential election setting forth campaign expenses incurred, amounts certified for payment, and the amount and reason for repayments by candidates. The *Comptroller General* is authorized to appear in U.S. courts to defend or seek relief in connection with actions brought under the act. (85 Stat. 563-572)

The Presidential Election Campaign Fund Advisory Board was established to counsel and assist the *Comptroller General* in the performance of duties imposed under the Presidential Election Campaign Fund Act. The *Comptroller General* is to appoint two members representing each major political party to serve on the Board. (85 Stat. 572-573)

Federal Election Campaign Act of 1971

Public Law 92-225, February 7, 1972, 86 Stat. 3, the Federal Election Campaign Act of 1971, contains two titles delineating responsibilities of the *Comptroller General*—title I, Campaign Communications Reform Act (86 Stat. 3), and title III, Disclosure of Federal Campaign Funds (86 Stat. 11).

With respect to communications reform, the *Comptroller General* is directed to prescribe regulations necessary and appropriate to carry out various provisions of title I and to calculate the amount of expenditure limitations for use of communications media for

presidential candidates based on data furnished by the Secretary of Labor and the Secretary of Commerce.

Under title III the *Comptroller General* is the supervisory officer of campaigns for nomination or election to the offices of President and Vice President of the United States, and he performs functions related to various disclosure activities including receiving reports from Federal candidates and political committees, making the reports available to the public, preparing annual reports based on the information received showing total contributions and expenditures and showing categories of contributions and expenditures, and making audits and field investigations of the information received and reporting violations to the Justice Department.

It is also the duty of the *Comptroller General* to serve as a national clearinghouse for information concerning the administration of elections and, in this connection, to conduct independent studies and make them available to the public.

FIDELITY LOSS ASSUMPTION BY FEDERAL GOVERNMENT

Public Law 92-310, June 6, 1972, 86 Stat. 201, to provide that the Federal Government shall assume the risks of its fidelity losses, requires the *Comptroller General* to prescribe and issue regulations related to restorations and adjustments of accounts of accountable officers and agents for losses to the United States.

Sec. 102. (a) Whenever—

(1) it is necessary to restore or otherwise adjust the account of any accountable officer or his agent for any loss to the United States due to the fault or negligence of such officer or agent, and

(2) the head of the agency of the Federal Government concerned determines the amount of the loss is uncollectable, such amount shall be charged to the appropriation or fund available for the expenses of the accountable function at the time the restoration or adjustment is made. Such restoration or adjustment shall not affect the personal financial liability of such officer or agent on account of such loss.

(b) The restorations and adjustments provided for by subsection (a) of this section shall be made in accordance with regulations which the *Comptroller General of the United States* shall prescribe and issue. (86 Stat. 201)

FEDERAL HEALTH FACILITIES CONSTRUCTION COSTS STUDY

Public Law 92-157, November 18, 1971, 85 Stat. 431, Comprehensive Health Manpower Training Act

of 1971, requires the *Comptroller General* to conduct a study of health facilities construction costs and report to Congress within 1 year after date of enactment. The study is to include consideration of the feasibility of reducing the cost of constructing health facilities built with assistance provided under the Public Health Service Act with respect to innovative techniques, new materials, and waiver of costly Federal standards. (85 Stat. 462)

FOREIGN AID PROGRAM

Impounded Fund Release and Excess Defense Article Release Certifications

Public Law 92-226, February 7, 1972, 86 Stat. 20, Foreign Assistance Act of 1971, limits obligation or expenditure of funds appropriated to carry out the act until the *Comptroller General* certifies to the Congress that certain funds impounded in fiscal year 1971 have been released for obligation or expenditure :

Sec. 658. Limitation on Use of Funds.—(a) Except as otherwise provided in this section, none of the funds appropriated to carry out the provisions of this Act or the Foreign Military Sales Act shall be obligated or expended until the *Comptroller General of the United States* certifies to the Congress that all funds previously appropriated and thereafter impounded during the fiscal year 1971 for programs and activities administered by or under the direction of the Department of Agriculture, the Department of Housing and Urban Development, and the Department of Health, Education, and Welfare have been released for obligation and expenditure. (86 Stat. 32)

The law also amends section 8(a) of Public Law 91-672, January 12, 1971, to require that all excess defense articles be treated like excess defense articles provided by the Department of Defense under authority of the Foreign Assistance Act of 1961. The provision requires certification to the *Comptroller General* regarding transfer of the article by any means to a foreign country or international organization. (86 Stat. 33)

COMMISSION ON GOVERNMENT PROCUREMENT

Public Law 92-47, July 9, 1971, 85 Stat. 102, amends the act of November 26, 1969, (Public Law 91-129, 83 Stat. 269) to provide for an extension to December 31, 1972, of the date on which the Commission on Government Procurement is required to submit its final report. The *Comptroller General* is a statutory member of the Commission. (85 Stat. 102)

LEGISLATIVE REORGANIZATION

Reimbursement of Compensation of Detailed Employees

Public Law 92-136, October 11, 1971, 85 Stat. 376, with respect to entitlement of committees of the House of Representatives to the use of certain currencies, also adds a new subsection (c) to section 235 of the Legislative Reorganization Act of 1970 requiring reimbursement to the *General Accounting Office* for the salary of employees for the period of detail to a committee of the Senate or a joint committee whose expenses are disbursed by the Secretary of the Senate.

Sec. 8. Section 235 of the Legislative Reorganization Act of 1970 (31 U.S.C. 1175) is amended by adding at the end thereof the following new subsection:

“(c) A committee of the Senate, or a joint committee whose expenses are disbursed by the Secretary of the Senate, shall reimburse the *General Accounting Office* for the salary of each employee of that office for any period during which that employee is assigned or detailed to such committee or joint committee.” (85 Stat. 378)

SUPERGRADE POSITIONS

Public Law 92-190, December 15, 1971, 85 Stat. 646, to authorize compensation for five *General Accounting Office* positions at rates not to exceed the rate for Executive Schedule Level IV. The *Comptroller General* may fix the compensation for five positions in *GAO* when he considers such action necessary because of changes in the organization, management responsibilities, or workload of the Office. (85 Stat. 646)

NONDISCRIMINATION IN FEDERAL GOVERNMENT EMPLOYMENT

Public Law 92-261, March 24, 1972, 86 Stat. 103, the Equal Employment Opportunity Act of 1972, provides that all personnel actions affecting employees or applicants shall be made free from any discrimination based on race, color, religion, sex, or national origin. The *General Accounting Office* is included in this non-discrimination provision as a unit of the legislative branch of the Federal Government having positions in the competitive service. (86 Stat. 111)

ACCOUNTING PROCEDURES

General Services Administration Operations Fund

Public Law 92-49, July 9, 1971, 85 Stat. 108, Treasury, Postal Services, and General Government Appro-

priation Act, 1972, contains a provision for approval of the General Services Administration operations fund accounting system by the *General Accounting Office*. (85 Stat. 119)

DEFENSE DEPARTMENT CONSTRUCTION

The Conference Committee on the Military Construction Appropriation for fiscal year 1972 agreed with a general provision in the bill to reduce the cost of construction and to encourage more efficient management of construction within the Department of Defense, but deleted it because they felt a complete and unbiased investigation of the efficiency of construction management and the equitableness of charges by construction agencies for construction supervision, inspection, and overhead should be conducted by the *General Accounting Office*. In conducting the study, *GAO* was directed to investigate the rates charged for similar work in private industry and to compare them with those charged by Department of Defense construction agencies. (H. Rept. 92-664)

APPROPRIATIONS FOR THE GENERAL ACCOUNTING OFFICE

Public Law 92-38, July 1, 1971, 85 Stat. 89, makes continuing appropriations for the fiscal year 1972 and

provides for the *General Accounting Office* such amounts as may be necessary for continuing projects or activities which were conducted in fiscal year 1971 and for which appropriations, funds, or other authority would be available in the Legislative Branch Appropriation Act for fiscal year 1972. (85 Stat. 89)

Public Law 92-51, July 9, 1971, 85 Stat. 125, the Legislative Branch Appropriation Act, 1972, provides an appropriation of \$87,108,000 for the *General Accounting Office* for salaries and expenses for fiscal year 1972, including not to exceed \$3,500 for special studies of governmental financial practices and procedures expendable on certification of the *Comptroller General*, services of experts and consultants authorized under 5 U.S.C. 3109 at rates not to exceed per diem rate equivalent to the rate for grade GS-18, advance payments in foreign countries, rental of living quarters in foreign countries, and travel benefits comparable with those granted single Agency for International Development employees. The law contains a proviso that the *Assistant Comptroller General of the United States* shall be known as the *Deputy Comptroller General of the United States*. (85 Stat. 143)

Public Law 92-306, May 27, 1972, 86 Stat. 163, Second Supplemental Appropriations Act, 1972, provides an appropriation of \$2,100,000 for increased paycosts of *GAO*. (86 Stat. 177)

EXHIBIT 3

TRANSPORTATION AUDIT AND COLLECTIONS DURING FISCAL YEARS 1963-72

| Fiscal year | Bills of lading and transportation requests audited | Amount paid | Notices of overcharge issued | | Total collections ¹ |
|------------------------|---|-------------------------|------------------------------|----------------------|--------------------------------|
| | | | Number | Amount | |
| 1963 | 7,114,879 | \$1,320,208.498 | 77,833 | \$13,146,393 | \$15,959,913 |
| 1964 | 7,309,834 | 1,332,550.920 | 73,251 | 11,362,179 | 10,499,464 |
| 1965 | 6,811,821 | 1,184,661.622 | 70,199 | 10,102,405 | 9,657,360 |
| 1966 | 7,555,366 | 1,474,220.901 | 86,970 | 10,694,257 | 8,494,453 |
| 1967 | 8,574,043 | 1,898,670.184 | 113,010 | 14,043,159 | 12,963,744 |
| 1968 | 7,892,789 | 2,075,358.128 | 112,306 | 15,474,645 | 14,681,476 |
| 1969 | 9,562,242 | 2,543,376.957 | 100,968 | 16,160,947 | 14,167,126 |
| 1970 | 9,282,062 | 2,374,913.448 | 108,499 | 17,708,324 | 16,314,622 |
| 1971 | 8,194,208 | 1,951,280.584 | 102,326 | 16,011,173 | 14,847,643 |
| 1972 | 7,061,543 | 1,698,483.402 | 84,445 | 14,822,726 | 14,165,142 |
| Total | 79,358,787 | \$17,853,724.644 | 929,807 | \$139,526,208 | \$131,750,943 |

¹ Includes amounts collected in GAO's adjudication of claims reported by other Government agencies.

EXHIBIT 4

TRANSPORTATION CLAIMS SETTLED DURING FISCAL YEARS 1963-72

| Fiscal year | Number of claims | Amount claimed | Amount allowed |
|------------------------|------------------|----------------------|----------------------|
| 1963 | 35,237 | \$13,013,942 | \$6,774,930 |
| 1964 | 22,673 | 19,133,508 | 14,985,277 |
| 1965 | 28,959 | 26,974,966 | 23,495,481 |
| 1966 | 29,413 | 37,130,274 | 33,440,430 |
| 1967 | 26,133 | 86,982,712 | 83,893,435 |
| 1968 | 22,829 | 11,335,870 | 9,317,118 |
| 1969 | 13,902 | 18,879,201 | 16,336,715 |
| 1970 | 13,725 | 14,764,352 | 13,053,245 |
| 1971 | 15,957 | 20,723,867 | 18,865,840 |
| 1972 | 20,440 | 10,242,515 | 6,859,440 |
| Total | 229,268 | \$259,181,207 | \$227,021,911 |

¹ Includes allowance of \$3,465,722 for Military Airlift Command movements audited before payment.

OTHER CLAIMS SETTLEMENTS AND COLLECTIONS DURING FISCAL YEARS 1963–72

| Fiscal year | Claims against the United States | | Claims by the United States | |
|-----------------|----------------------------------|----------------|-----------------------------|-------------------------------|
| | Number of claims | Amount allowed | Number of claims | Amount collected ¹ |
| 1963 | 9,984 | \$31, 141, 152 | 47,703 | \$4,528,372 |
| 1964 | 7,450 | 33,879,969 | 43,267 | 6,410,068 |
| 1965 | 8,296 | 78,283,755 | 41,921 | 4,070, 156 |
| 1966 | 8,274 | 52,596,937 | 33,977 | 4, 128,554 |
| 1967 | 9, 705 | 46,483,888 | 32,208 | 3,626,693 |
| 1968 | 13,812 | 60,988,960 | 16, 282 | 2, 938,681 |
| 1969 | 18,690 | 70, 140,076 | 9,750 | 2,819,450 |
| 1970 | 14,943 | 55,909,237 | 13,201 | 2,626,961 |
| 1971 | 8,686 | 117, 782,204 | 20,394 | 2,878,940 |
| 1972 | ² 7,819 | 69,977,376 | 22,211 | 4,612,775 |
| Total | 107,659 | \$617, 183,554 | 280,914 | \$38,640,650 |

¹ Includes amount collected by the Department of Justice on claims reported by GAO to that agency for possible suit.

² This figure does not include 1,620 barred claims that have been handled under an improved procedure that keeps them out of the adjudication workload. It is anticipated that this figure will diminish in future years due to constant efforts on the part of GAO to discourage the filing of this type of claim.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF ASSETS, LIABILITIES, AND INVESTMENT
JUNE 30, 1972

ASSETS

| | | |
|---|--------------|-----------------------------|
| Funds in U.S. Treasury: | | |
| Appropriated funds | \$6,816. 600 | |
| Deposit funds | 909. 300 | |
| | <hr/> | \$7,725. 900 |
| Employees' travel advances | | 529. 200 |
| Accounts receivable | | 221. 200 |
| Prepaid expenses | | 34. 500 |
| Supplies | | 112. 700 |
| Furniture, fixtures, and equipment | 3,238. 700 | |
| Less: Accumulated depreciation | 1,695. 200 | |
| | <hr/> | 1,543. 500 |
| Library books (estimated) | | 151. 500 |
| | | <hr/> |
| Total assets | | <u><u>\$10,318. 500</u></u> |

LIABILITIES AND INVESTMENT

| | | |
|--|---------------|-----------------------------|
| Accounts payable | | \$5,313. 000 |
| Accrued liabilities | | 573. 500 |
| Funds held for others, principally employees' tax and other payroll deductions | | 909. 300 |
| Liability for accrued annual leave of employees | \$6. 129. 102 | |
| Less: Amount to be financed from future appropriations | 6,129. 102 | |
| | <hr/> | |
| Total liabilities | | 6,795. 800 |
| Investment of U.S. Government (Exhibit 7) | | 3,522. 700 |
| | | <hr/> |
| Total liabilities and investment | | <u><u>\$10,318. 500</u></u> |

**U.S. GENERAL ACCOUNTING OFFICE
SUMMARY OF CHANGES IN INVESTMENT OF U.S. GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1972**

| | | |
|--|---------------------------|---------------------------|
| Balance, July 1, 1971 | | ¹ \$2,352, 100 |
| Add : | | |
| Appropriation for salaries and expenses, 1972 | \$89,203, 100 | |
| Reimbursements. | 186,300 | |
| Restoration of funds previously returned to Treasury to finance increases in cost of prior year's orders | 57,500 | 89,446,900 |
| Total. | | 91,799,000 |
| Deduct : | | |
| Operating expenses, 1972 (Exhibit 8) | 87,465,100 | |
| Less: Amount of annual leave earned by employees and included in operating expenses, which will be financed by future appropriations | — 296,200 | |
| Unobligated balance of 1972 appropriation lapsed | 1,107,400 | 88,520,800 |
| Balance, June 30, 1972 | | <u>\$3,522,700</u> |
| Composition of balances: | | |
| Investment in: | <i>July 1, 1971</i> | <i>June 30, 1972</i> |
| Inventories of supplies | \$94, 900 | \$112,700 |
| Furniture, fixtures, and equipment | 1,345,400 | 1,543,500 |
| Library books. | 144, 000 | 151,500 |
| Funds reserved for payment of unfilled orders | 767,800 | 1,715,000 |
| Total | ¹ \$2,352, 100 | <u>\$3,522,700</u> |

U.S. GENERAL ACCOUNTING OFFICE
SUMMARY OF OPERATING EXPENSES FOR THE FISCAL YEAR
ENDED JUNE 30, 1972

| | <i>Total</i> | <i>Salaries</i> | <i>Employee benefits</i> | <i>Travel</i> | <i>Other</i> |
|--|---------------------|---------------------|--------------------------|--------------------|---------------------|
| Office of the Comptroller General | \$636,000 | \$522,400 | \$41,800 | \$16,100 | \$55,700 |
| Office of Administrative Planning and Services | 3,988,100 | 2,735,500 | 337,600 | 35,200 | 879,800 |
| Office of the General Counsel | 3,701,900 | 3,244,700 | 268,000 | 15,900 | 173,300 |
| Office of Federal Elections | 67,400 | 31,400 | 2,000 | 1,100 | 32,800 |
| Office of Personnel Management | 2,497,900 | 2,074,100 | 159,800 | 142,400 | 121,700 |
| Office of Policy | 213,000 | 187,800 | 17,000 | 3,800 | 4,500 |
| Office of Program Planning | 91,300 | 76,400 | 5,700 | 4,000 | 5,100 |
| Office of Internal Review | 126,400 | 112,000 | 8,900 | 3,000 | 2,500 |
| Financial and General Management Studies Division | 3,475,500 | 2,916,900 | 251,600 | 97,400 | 209,600 |
| Logistics and Communications Division | 3,263,200 | 2,861,400 | 238,300 | 91,700 | 71,800 |
| Procurement and Systems Acquisition Division | 3,599,800 | 3,165,700 | 260,100 | 95,000 | 79,000 |
| Federal Personnel and Compensation Division | 1,017,400 | 885,600 | 74,500 | 30,800 | 26,400 |
| General Government Division | 3,038,900 | 2,666,300 | 225,700 | 79,000 | 68,000 |
| Resources and Economic Development Division | 4,122,200 | 3,591,500 | 304,700 | 130,600 | 95,400 |
| Manpower and Welfare Division | 3,928,200 | 3,429,000 | 294,700 | 115,400 | 89,100 |
| International Division: | | | | | |
| Washington, D.C. | 3,219,000 | 2,704,200 | 229,300 | 225,800 | 59,700 |
| European Branch | 1,750,000 | 1,047,700 | 132,200 | 222,900 | 347,200 |
| Far East Branch | 2,241,600 | 1,376,200 | 244,100 | 406,200 | 215,200 |
| Field Operations Division | 36,404,600 | 29,334,900 | 2,525,800 | 3,933,700 | 610,200 |
| Transportation and Claims Division | 10,082,800 | 8,974,200 | 743,200 | 9,400 | 356,000 |
| Total | \$87,465,100 | \$71,937,900 | \$6,365,300 | \$5,659,100 | \$3,502,800 |
| Reconciliation of accrued expenditures for year with total expenses: | | | | | |
| Accrued expenditures | | | | | \$87,392,300 |
| Add: | | | | | |
| Increase in accrued annual leave liability | | | | | 296,200 |
| Depreciation of furniture, fixtures, and equipment | | | | | 196,400 |
| Deduct: | | | | | |
| Purchases of furniture, fixtures, and equipment | | | | | —402,000 |
| Increase in inventory of supplies | | | | | —17,900 |
| Operating expenses | | | | | <u>\$87,465,100</u> |

**U.S. GENERAL ACCOUNTING OFFICE
SUMMARY OF SOURCES AND APPLICATION OF FUNDS
FISCAL YEAR ENDED JUNE 30, 1972**

Sources of funds:

| | |
|--|--------------|
| Appropriation for salaries and expenses, 1972 | \$89,203,100 |
| Reimbursements. | 186,300 |
| Funds carried over from preceding year to pay for orders placed in that year but filled in the current year . . | 767,800 |
| Restoration of funds previously returned to Treasury to finance increases in cost of prior year's orders | 57,500 |
| Receipts for audit services | 375,600 |
| Other receipts. | 120,900 |
| | <hr/> |
| Total | \$90,711,100 |
| | <hr/> |

Application of funds:

Accrued expenditures:

| | |
|--|--------------|
| Expenses | \$86,990,300 |
| Purchase of furniture, fixtures, and equipment | 402,000 |
| | <hr/> |
| Funds reserved at the yearend for payment of unfilled orders | \$87,392,300 |
| Unobligated balance of 1972 appropriation lapsed | 1,715,000 |
| Receipts deposited in U.S. Treasury | 1,107,400 |
| | <hr/> |
| Total | \$90,711,100 |
| | <hr/> |

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